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CONTENTS

The Trend of Events ... 539
As I See It! By Robert Guise ... 541
What's Ahead for the Market. By A. T. Miller ... 542
What About Corporate Profits in 1944? By Laurence Stern ... 544
The Future of Canada. By V. L. Horoth ... 547
Another Look At— By The Magazine of Wall Street Staff ... 550
Happening in Washington. By E. K. T. ... 552
As We Go To Press ... 553
War-time Trends in Consumer Spending. By E. A. Krauss ... 555
$150 Per Capita In Currency. By John C. Cresswill ... 558
Re-Appraisals of Earnings and Dividend Forecasts ... 559
Divergent Trends for Merchandising Shares. By J. C. Clifford. 560
Outlook for Farm Equipments. By Edwin A. Barnes ... 563
New Outlook for Rail Equipments. By H. F. Travis ... 564
Electrical Equipments In Transition. By George L. Merton ... 566
Projecting Prospects For Office Equipment. By Stanley Devlin ... 568
Position of Miscellaneous Companies ... 569
For Profit and Income ... 571
How New Tax Bill Will Affect Investors. By Ward Gates ... 573
Investment Audit of the Paper Industry. By Richard Colston ... 574
Answers to Inquiries ... 576
The Business Analyst ... 577

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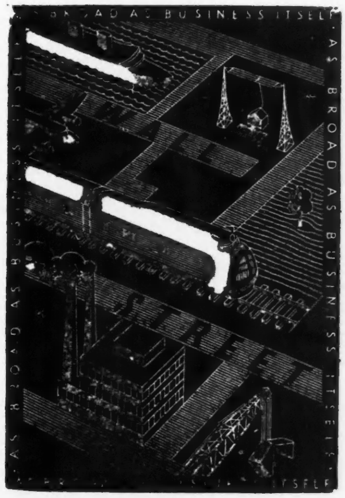
Gendre

Cash farm income soared to a record-breaking high of $19,678,000,000 last year, against $15,979,000,000 in 1942, $8,686,000,000 in the pre-war year 1939 and a measly $4,743,000,000 in 1932. The Government is committed to maintaining a good floor under post-war farm prices. Yet we hear that many farmers are complaining. Some people seem hard to satisfy!

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* LAURENCE STERN, *Managing Editor*



The Trend of Events

THE BARUCH REPORT . . . It has long been obvious that "unwinding" the war economy and getting back to peace-time industrial operations would present problems scarcely, if any, less complex than those we encountered in mobilizing for war. We did not begin to prepare for war with full realism until forced to by stark events. Whether we will now make sufficient advance preparation for demobilization and reconversion appears to be, so to speak, on the laps of the political Gods.

The Baruch-Hancock recommendations offer orderly and workmanlike methods by which the Government can settle its war contracts, dispose of surplus goods and plants and expedite the change-back to civilian production. The authors also suggest that Congress should come to advance grips with post-war tax reduction legislation.

The policies proposed seem to us so clear and sound that there *ought* not to be much room for controversy. It is an unfortunate fact, however, that controversy did immediately arise. Congress not only wants a voice in shaping policy but also demands substantial control over the administrative set-up.

Mr. Baruch is correct in believing that the men who guided the mobilization for war under broad authorizations of Congress are best fitted to guide the demobilization, especially since both the planning for demobilization and the actual beginnings of it will overlap the continuing prosecution of the war. To establish a new agency, responsible largely to Congress, as Senator George's committee proposes, appears to us impractical and undesirable.

Both on policies and methods, the Baruch-Hancock report emphasizes the desirability of close cooperation between Congress and the Administration, to that end suggesting that Congressional action be effectuated through establishment of a responsible joint Senate-House committee. It is most unfortunate—but a fact not to be blinked—that the present political atmosphere at Washington offers scant promise that we shall have this necessary cooperation. On the contrary, if our home-front war between the White House and the Congress continues, there will be grave danger that advance preparation for demobilizing industry will lag for many months and that peace may find us almost as ill-prepared as we were for war.

DECLINE IN EMPLOYMENT . . . With the war far from won and with Government spending for war maintaining the high average levels reached in the second half of last year, even though moderately under the previous peak monthly rate, it is a startling fact that unemployment has been increasing in recent months at a pace much greater than can be accounted for by seasonal influences.

According to the preliminary survey of the National Industrial Conference Board, January employment—including members of the armed forces—declined by 1,700,000 persons from the December total and reached a level about 4,000,000 less than the peak total of last September. Of course, part of this shrinkage is seasonal, especially as regards employment in farming, retail trade and some food lines. But, on the face of it, something like half of the total decline is without seasonal explanation—since the comparable shrinkage over the same period of 1942-1943 was only 1,600,000 jobs.

Moreover, the preliminary January data show employment declines specifically in various industries where we

had least expected them at this time: including automobile equipment, aviation, iron and steel, shipbuilding and lumber. How can that be?

It is only a few weeks ago that the President and some of his most respected administrative associates were plausibly arguing the case for compulsory national service; and the War Manpower Commission was continuing to warn that maximum needs for labor in the war effort had not been reached, and would not be reached before summer at the earliest.

One might conclude that the arms production schedules have been scaled down more than has been revealed—except that the Treasury expenditure figures lend scant support to any such theory. The more likely assumption is that the arms making industries have simply proven able to turn out more stuff with fewer workers than had been expected. Since all of us have been amazed by this demonstration of productivity, it is not surprising—nor a fair basis for criticism—that Government officials have persistently over-estimated the 1944 labor needs.

But in any event it is food for sober thought that we are already apparently seeing the first significant advance shadows of the serious unemployment problem that will confront us after the defeat of Germany and during the industrial reconversion period. Recognizing the reality, organized labor is busily striving to nail down the gains made during the war, while the nailing is still fairly good. But it is hard for us to believe that a declining employment trend can fail to aid the cause of wage-price stabilization; and do so rather effectively while the politicians are still debating governmental controls. The "inflation pressure," like the labor shortage, just isn't—and never was—quite as formidable a problem as it was cracked up to be.

CORPORATION TAXES . . . The primary defect in the attitude that has been taken toward corporation taxes for many years by politicians, the propagandists of organized labor and too large a portion of the public is that it is simply unintelligent.

Corporations did not develop by chance. They exist because the corporate form is the most convenient and efficient means of organizing capital, materials and labor for large scale production and distribution. Looked at realistically, corporations are funnels through which continuous income payments are made to *individuals* for their labor, or for materials and services bought, or for recompense to owners for the use of their capital.

Thus put in proper focus, it should be apparent that unnecessarily high taxes on corporations are actually and inevitably borne by the general public. Harsh taxes in a normally competitive economy impede the flow of income payments by corporations to individuals and tend either to raise product prices or prevent their reduction, since an adequate *net* return on invested capital, after tax payments, is required to induce adequate production.

For the basic reasons cited here—and not because of political "reaction to the Right"—we now see the slow beginnings of a substantial change in public thinking on this matter. It seems probable that in tax revision after the war, Federal revenue needs will rely more on individual taxation, less on corporation taxes. That is how it should be. Since, in the final analysis, individuals—rather than the impersonal entitities called "corporations"—bear the load anyway, it might better be as direct and unconcealed as possible. More important than that, corporate taxes of anything like the present scope and type would be an insuperable obstacle to expanding productive investment such as will be essential if we are to have the desired level of post-war private business activity and employment.

This is not a problem of the distant future. Tax reduction and thorough revision of tax methods will have to be inaugurated fairly promptly after the defeat of Germany. Otherwise, the only alternative will be continuously deficient private capital investment and the progressive socialization that goes inevitably with perennial reliance upon extraordinary Government spending. Thus, Mr. Baruch is correct in suggesting that it is not a bit too early for Congress at least to *begin* making its post-war tax plans.

PUBLIC VS. PRIVATE UTILITIES . . . The Twentieth Century Fund, a research organization endowed by Edward A. Filene, Boston's famous merchant, has just published a book on private electric utilities versus publicly operated utilities. Its most general conclusion is that: "There is no conclusive evidence that private enterprise is more or less efficient than public enterprise."

To this we take exception. For reasons that we believe to be obviously inherent in human nature, private enterprises will always on an average be more efficient than public enterprises, despite the minority of exceptions that can always be found to any general rule.

The study concedes that cost comparisons can be misleading unless all factors are carefully taken into account. For instance, the cost of regulation of private utilities is part of the expense borne by the electricity consumer, an expense not present in publicly owned utilities. Again, backed by government credit, public enterprises can raise capital more cheaply than private ones; and they do not pay taxes. In the case of multiple-purpose public ventures—such as TVA's power, irrigation, navigation and flood control services, etc.—there is no valid basis for cost comparison with private electric utilities.

Excepting within the areas of the big Federal hydroelectric projects, there is apparently no increasing public demand for municipal power operation. On the contrary, in recent years voters have turned thumbs down on many such proposals. The war period probably will see the maximum in development and expansion of Federal hydro-electric projects. They have come in very handy indeed in the war effort, but most—especially in the far West—will have a capacity in excess of reachable civilian needs for years to come. Besides that, we have strong doubts that either the present Congress or the one to be elected next November will agree to do more than maintain the Federal power projects already in being.

That will leave over 80 per cent of the electric power business under private ownership. There is no need nor occasion for economic conflict between the two forms of operation—once the relationships are stabilized, as they will be. They can exist together, without the destruction of private enterprise, as was the case for many years before the war in various other countries.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 542. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, Feb. 28, 1944.

As I See It!

THE IMPLICATIONS IN CHURCHILL'S SPEECH

BY ROBERT GUISE

PRIME MINISTER CHURCHILL'S emphatic reminder, in his recent report to Parliament, that we may have to face another full year of war in Europe merely confirms the belief which of late has been gaining ground in our own country. President Roosevelt and other responsible leaders have repeatedly spoken in this vein.

If Mr. Churchill at this time saw fit to make it virtually the keynote of his report, he presumably did so because he recongized the need, in his own country, of striking a balance between undue optimism and undue gloom. This is exactly what his report amounts to, and as such it is a constructive contribution to our and to British understanding of the war situation. But its significance goes far beyond that. If the report was rendered with less than the usual skill, it was due perhaps to the Prime Minister's realization of the need not only for information but for explanation as well.

Most of us have been aware of the subtle changes which in recent months have affected Mr. Churchill's political position at home. He himself is too astute a politician to be unaware of their portent. Signs have been multiplying that the party truce in effect in England since the beginning of the war may soon undergo its first serious crisis as conservative control is increasingly challenged. It is against this background, then, that the Prime Minister's report must be evaluated perhaps in the first instance.

The debate in the House of Commons leaves little doubt about it. According to press reports, amazingly harsh words were spoken. If anything, this tends to underline the impression that Mr. Churchill, as his speech clearly implies, was politically on the defensive. In dealing at length with such topics as the difficulties of the Italian front, and in hinting at the rockiness of the road in formulating British policy towards Russia, he merely anticipated the challenge he knew would be flung from opposition quarters. The acerbity of the debate made it clear that he failed in shaking the critical attitude of his audience.

Disappointment in England over the slow progress of the war in Italy has been keen and comment thereon openly critical. The Prime Minister did his best to explain the reasons and to defend Alexander, whose capacity had previously been questioned when he was in command in Africa. Also, apprehension over British policy vis-à-vis Russia has been mounting and has become increasingly vocal. The Government has been accused of giving in to Russian political, and perhaps territorial, aspirations in the Balkans and Eastern Europe, of being led instead of leading, of lacking backbone in the handling of present and future political problems of special interest to Russia, to the detriment of Britain's position in Europe. That the Churchill Government is highly sensitive to such charges is made obvious by Foreign Minister Eden's quick avowal that the Government is reserving the right to intervene in the settlement of political affairs in any part of Europe, a broad statement indeed in view of the situation created by the impasse over the Polish question.

But in spite of the political considerations the Prime Minister had to contend with, his report fully displays the confidence that no longer needs to assert the certainty of victory. This of course is fully justified by the war situation. Yet there are points which are apt to throw an interesting light on the possible immediate course, points which tend to support Mr. Churchill's idea of the probability of a longer war.

His accent on the use of Allied air power against Germany, his expressed hopes of eventually driving the Luftwaffe from the skies leaves the impression that achievement of this objective may be (*Continued on page* 586)

American soldiers on one of the many far-flung fronts of global war — this one in the distant South Pacific.

A group of United States Army officers examining a German airplane which was captured intact in the Mediterranean war area.

International News Photos.

What's Ahead for the Market

We believe it is doubtful that the present selective rally will develop into either broad or sustained advance. As long as the industrial average continues stalled, the technical implications of further moderate strength in rails must remain uncertain, if not negative.

BY A. T. MILLER

Summary of The Fortnight: The rail and utility averages continued to provide bull leadership, each reaching new recovery highs. While the industrial average advanced modestly, it still remains in the long familiar trading rut. Though volume indications were modertely encouraging, the market seemed uncertain of the political significance of the thumping revolt of Congress on the tax bill veto.

The question of whether "minority" leadership—as represented by strength in rail and utility stocks, plus a small sprinkling of new highs in secondary industrials—can induce a more general market advance of significant proportions is still unanswered.

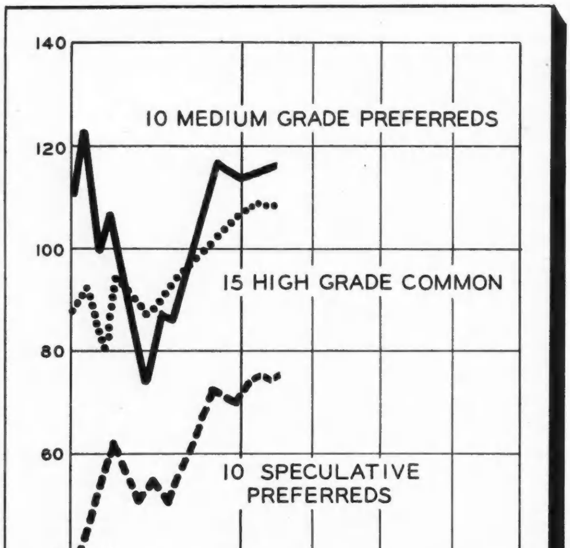
And to this we now have added a second question of much interest: Does the recent sensational revolt of Congress against the White House on the issue of the tax bill veto mean that President Roosevelt's prospect for re-election has been seriously impaired; and, if so, is that sufficiently bullish in its market implications to touch off a broad and sustained advance?

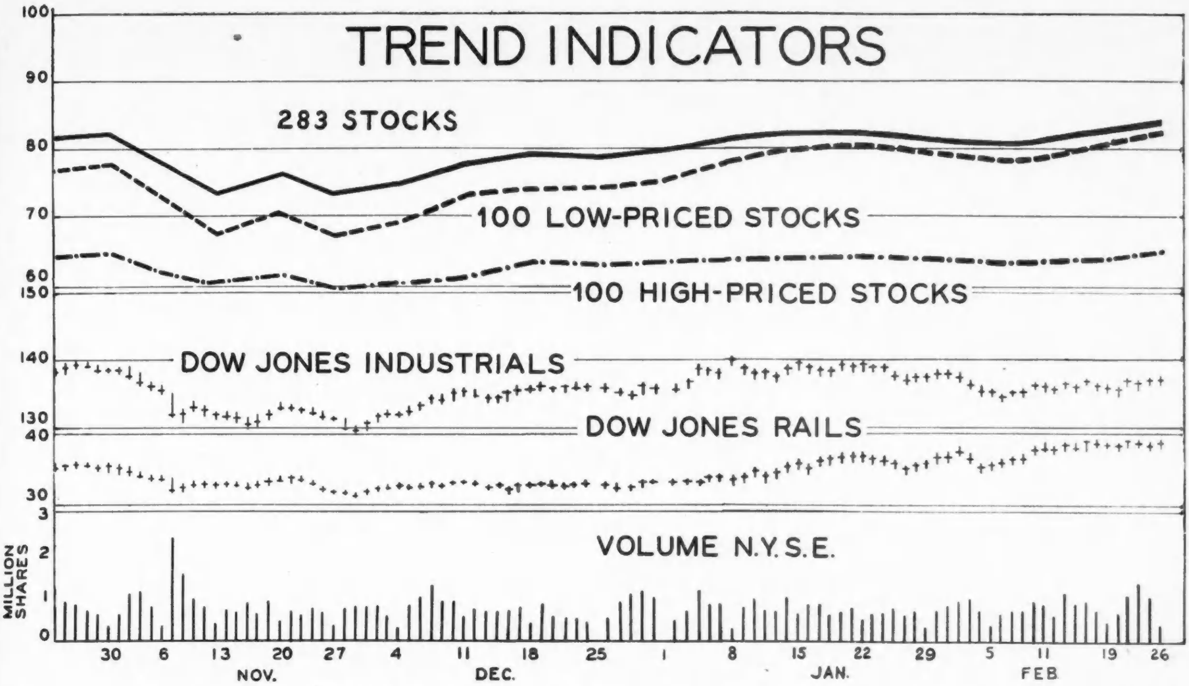
On the day of Senator Barkley's political bombshell, trading volume on the New York Stock Exchange spurted to 943,184 shares, compared with 594,435 shares on the previous pre-holiday session; 465 issues advanced, 197 declined and 200 were unchanged. The industrial average gained 80 cents, rails 63 cents and utilities 25 cents. On the following day, with the House overriding the veto, volume increased further to 1,162,110 shares, and out of 902 issues traded 440 advanced, 241 declined and 221 were unchanged; while the industrial average advanced 7 cents, the rails declined 16 cents and the utilities gained 28 cents. On the third day, with the Senate overriding the veto, volume fell back to 900,186 shares, approximately as many issues declined as advanced, utilities gained a small fraction, while the industrial and rail averages showed small declines. The final session of the week found strength confined mainly to rails, but with this average slightly under the recovery high that had been made several days before.

From the technical action here sketched, it would seem that investors and traders either are not yet inclined to assume that Mr. Roosevelt's political setback is of lasting significance, or that, if otherwise, it is dynamically bullish in its practical implications. Of course, it is possible that second thought on this now famous "incident" may take a more bullish slant—but, if so, the evidence ought to develop within a matter of a very few days in the form of broadening strength in the industrial section of the list as reflected in the long lethargic Dow industrial average and our almost equally stalemated index of 283 stocks.

Since the Democratic Party has no candidate, other than Roosevelt, who has any apparent chance of winning the election, it would seem absurd to expect either that the nomination can be denied Roosevelt or that, thereafter, any bolt by conservative Democratic dissidents would amount to much in practical political effect. Since political incumbents wish to be reelected, intra-party strife usually ends as election approaches.

Continuing serious friction between Roosevelt and Congress would, of course, aid Republican prospects in the election, but whether by a decisive margin is unclear as things stand today. Since both the President and the the Democratic politicos of Congress can be presumed to have a common desire to win the election, it seems reasonable to suppose that both sides will make efforts henceforth to resolve their differences and effect more harmonious relations. Thus, it is quite possible, as some at Washington believe likely, that the recent bitter row will "clear the air" and in that sense prove an end, rather than a beginning of more fights to come.





However, what we think about it is beside the point. As said before, it should be demonstrated pretty promptly whether investors and speculators are going to reason—regardless of the ultimate accuracy of the reasoning—that the market now has a bullish "political base" on which a major rise in prices can be founded. If so, we would expect to see strength and suddenly enlarged activity in many, if not most, of the prominent industrial stocks which for some months now have been doing almost exactly nothing. But certainly, up to this writing, there is no inkling of any such change.

The persistent failure of leader-type industrials to go ahead makes us skeptical of the intermediate market prospect, as do other factors of uncertainty that we have discussed in previous articles. It forces one, moreover, to regard the divergent strength in rails with some reserve—to suspect that it may prove to be an intermediate rally—rather than a major trend phenomenon—and therefore not a move of extended duration. After all, the rail average so far has bettered the high of last July by only 60 cents; and that the rise is not without considerable resistance is indicated by the fact that in recent trading the rail average has been unable to go ahead for more than two or three consecutive sessio without set-backs.

On the other hand, it is technically helpful to the market that the case for general reaction has been so widely "advertised". Perhaps too many would-be buyers want and expect reaction at the present time. In taking a cautious view of the outlook for the early months of 1944, we have expressed no dogmatic opinion on the matter of the timing of renewed unsettlement. Nor have we contended that the industrial average can not rise above the early January high of 138.65. But we have believed—and still believe—that the advance from the November lows is essentially a trading-range rally, rather than a renewal of the major bull trend that was interrupted last July. The technical indications to date support, rather than contradict, this assumption.

We have pointed out that there is obviously formidable resistance around the 138 level, also around 140-142—within which level the rally of last August-September petered out—and still more resistance at 145-146, the stopping point of the major rise last July. It is possible, especially if given the aid of surprising news of bullish implication, that the industrials can plough up through all these levels. But this remains to be proven. After weeks of stalemate, the "Dow" at this writing is still only at 136.58. This position in the mid-130's is beginning to look boresomely familiar. Well it may. Certainly a great deal of time has been spent there. Indeed, in the major 1942-1943 rise the industrial average reached and passed this 136 level in the last week of March, 1943, so that in net effect it can be said that it hasn't gone anywhere for nearly a year.

Technically, the market seems to need some exciting development to "clear the air." An interesting *possibility*—though one we are not prepared to bet on—is that the industrials might do in March what is generally unexpected: come through with an impressive-looking "false" move penetrating the high of last July, thus "confirming" the rail average's "indication" of a renewed bull market. If so, what then? We would say, look out for the reaction that had been mostly expected earlier and from a lower level!

As regards rails, selected issues appear quite reasonably priced in relation to probable longer-trem earnings potentials. Among the stronger systems, Chesapeake & Ohio, Norfolk & Western, Union Pacific, Atchison and Louisville & Nashville are attractive on a long pull investment basis. Among former "borderline" issues, we are partial—again on a long term basis—to Great Northern preferred, Southern Pacific and Southern. But we don't expect rails to run away in the present market setting, and we don't think the last chance to buy them on reaction has been seen.

Conclusion: We recommend continued caution and selectivity in investment policy, and suggest that substantial cash reserves be maintained by those whose primary objective is intermediate or long-term appreciation.

What About Corporate Profits in 1944?

Weighing Large Backlogs Against Declining New Orders

BY LAURENCE STERN

NORMALLY changes in the volume of business handled affect corporate profits for good or ill more than all other factors combined; and since there is considerable rigidity in operating costs, fluctuations in net income usually have been much sharper than the percentage rise or fall in sales. For these reasons, visible or potential changes in volume—both as a general consideration and as more particularly affecting individual corporations—have customarily figured largely in investment and speculative calculations.

One of the abnormalities of a war economy is that this question of volume, at least as affecting a majority of enterprises, can be ignored or at any rate relegated to quite secondary attention—up to a certain point, which we now seem to be reaching. For several years, large—and rising—volume has been assured by war orders or the collateral great increase in the national income. Despite taxes that take as much as 80 per cent of pre-tax income and despite a rise in unit labor costs in many lines, unprecedented volume has permitted an excellent aggregate of corporate profits during the war years; and record-high earnings for a substantial minority of companies, many of which didn't fare nearly so well on former peace-time business.

But the war effort is now reaching maturity. The War Production Board is authority for the statement that the monthly rate of war expenditure probably made its peak last November. Therefore, the over-all prospect is for a static, though high, level of industrial production until the defeat of Germany, with the beginning of a substantial decline promptly thereafter; and meanwhile the shifting emphasis as to categories of war output will mean continuing large order cancellations for many companies. By no means in all cases will cancelled orders be offset by new orders for different type items which are still scheduled for enlarged output, most notably aircraft.

At the very least, this means that we can not expect a further rise in average corporate profits in 1944, even should the war in Europe continue throughout the year. It further means that any additional increase in operating costs would be at greater expense to profits than in previous years of rising volume, even though the larger part of the difference would be reflected in reduced tax liability.

But while it is apparent that average corporate earnings have now reached a ceiling, it can not at this time be forecast whether they will decline from the 1943 level and, if so, by how much. The major imponderables in this question are (1) duration of war in Europe, as

related to production volume; and (2) whether there will be stability or further rise in operating costs, mainly unit labor costs.

In the writer's opinion, the chances are that there will be at least a moderate shrinkage in aggregate 1944 profits. I reason that continued war in Europe through the year would almost certainly bring additional wage increases, without material volume increase; while on the other hand the end of war in Europe by summer or autumn would lower volume enough to affect profits adversely. Here, however, we have another war-time abnormality and this one on the mitigating side: the tax cushions. Because of them, no conceivable decline in 1944 business volume can lower aggregate profits drastically or in anywhere near the former ratio to volume shrinkage. Still, the tax cushions would merely moderate an earnings decline, not prevent it.

Especially in the case of non-war enterprises that are not subject to high excess profits taxes, it is still possible for volume shrinkage, or increased costs, to be accompanied by very substantial impact on profits. To illustrate that tax cushions do not guarantee steady profits, here are few examples of decline in 1943 per share results: Commercial Investment Trust, 25 per cent; Flintkote, 19 per cent; Mohawk Carpet Mills, 26 per cent; Lorillard, 25 per cent; Youngstown Sheet & Tube, 23 per cent; Lone Star Cement, 22 per cent; Johns-Manville, 17 per cent; United States Steel, 16 per cent; Devoe & Raynolds, 31 per cent. Many others could be cited. They are, of course, exceptions to the general rule—average corporate profits being up about 12 per cent for 1943—but they serve to emphasize my point that a more general volume decline would necessarily reduce profits materially.

It is true that post-war volume and profit potentials have much more to do with the current market valuation of stocks than do war-time earnings levels, and it *may* be that the longer potentials will outweigh, as a market factor, any interim decline in earnings that might result from lower volume either this year or whenever the real reconversion slump in production begins. But it seems to me that the latter is a rather optimistic assumption. Certainly it is not a common thing for stocks to go *up* on declining earnings. The influence of a bullish investment consensus as regards post-war prospects would certainly be stronger on steady earnings meanwhile than on shrinking earnings. And a bearish or dubious sentiment as regards longer-term potentials for individual stocks would certainly tend to become more so on declining interim earnings. Present poor market action of heavy steels, for instance, is related both to post-war uncertainties and to mediocre current earnings.

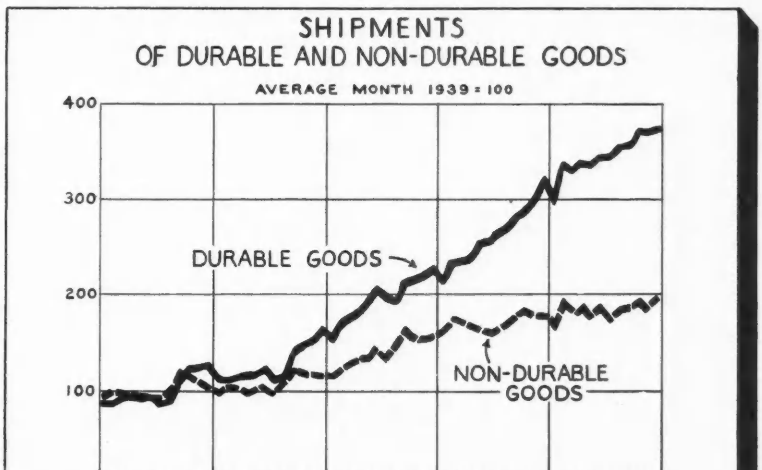
As the war economy matures, a larger portion of total expenditures goes for maintenance of the military personnel, and a reduced portion for purchase of equipment. Hence there is neither an exact nor fixed relationship between the monthly rate of war expenditure and the volume of new orders flowing to the manufacturing industries. As shown by the chart at the top of the first page of this article, the placement of new orders for durable goods made a peak in mid-1942 at a level over five times greater than in January, 1939. Thereafter that level was neither maintained, nor closely approached again. By December the index was down to 400. Orders for non-durable goods appear to have made their war-time peak in the second half of last year at a level about twice the average of 1939 and to have turned down moderately in the closing quarter. The data used, as well as that for the second chart on shipments of durable and non-durable goods, is from the Department of Commerce.

Until recently new orders greatly exceeded deliveries, with the result that backlogs steadily increased. Allowing for the fact that the shipments index is based on average shipments of 1939, whereas the new orders index is based on January, 1939, it appears that shipments of durable goods finally reached an approximate balance with incoming orders during the fourth quarter of 1943; and that by the end of the year deliveries of non-durable goods were in excess of incoming orders. However, this evidence does not suggest as yet any material "working off" of the large accumulated backlog.

On the other hand, data from a private research source that this publication has found to be reliable indicates that combined new orders for all types of goods, despite a moderate rebound in recent weeks, represented, as of early February, a *physical* volume about 118 per cent of the 1935-1939 average, compared with 1943 high of around 128, 1942 high of 152 and 1941 high of 165.

The declining trend of new orders for civilian consumers' goods—as well as other evidence—suggests that we have put behind the last of the waves of "shortage scare" business buying, and that buying policy is now conservatively cautious. The influences making for caution are the coming invasion, or invasions, of the Continent, since the outcome relates so closely to the duration of the war; the increasing and potentially huge surplus stocks in Government hands, and uncertainty as to the course of prices in the early post-Hitler period.

But Government demands dominate in the reckoning, and stabilized war expenditure continues to run in excess of $7 billions a month. Thus, despite the rising trend of deliveries, the total backlog of orders on hand can not decline importantly except as incident to Government cancellations. We hear more about contract cancellations than about new contracts let, with neither complete nor regularly released data on either. It is a



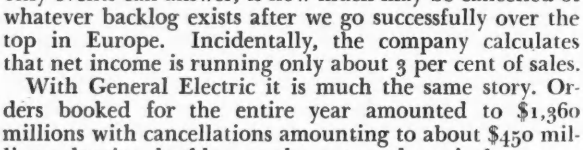
reasonable surmise that new war orders, on an over-all basis, remain thus far in at least fairly close balance with cancellations in dollar amount, although, of course, it does not necessarily work out that way for individual contractors.

Clearly the High Command holds that there are military and psychological reasons for insisting that there shall be no "let down" in the war effort. Thus, the Army adamantly opposes even moderate increases in civilian production, even though employment appears to have passed its peak and some surpluses of materials are available. In line with this policy, particular types of war production have to be pretty glaringly useless or excessive before cancellations are made; and net decline of decisive proportions in war business can not be expected until after successful invasion of Europe. However, the latter test appears now to be fairly near; and it is possible, if not probable, that spring events in Europe will have a dynamic bearing on 1944 industrial volume.

Since order backlogs of manufacturers consist so largely of Government business, subject to instant cancellation, a given volume in backlog can not necessarily guarantee a proportionate forward period of production.

A fairly typical example of a big war contractor with highly diversified types of production is Westinghouse Electric & Manufacturing Company. Although Government cancellations in 1943 amounted to $320 millions, new orders totalled $959 millions and the backlog at the end of the year was $885 millions. At the existing rate of production, if the volume were spread evenly through the company's plants, this would amount to a little more than one year's work. But the pertinent question, which only events can answer, is how much may be cancelled of whatever backlog exists after we go successfully over the top in Europe. Incidentally, the company calculates that net income is running only about 3 per cent of sales.

With General Electric it is much the same story. Orders booked for the entire year amounted to $1,360 millions with cancellations amounting to about $450 millions; leaving backlog at the year-end equivalent to a year's output at current production rate. However, the declining trend of new orders is noteworthy. For the full year the volume booked was 32 per cent less than in 1942. By quarters, the orders were: first quarter, 41 per cent larger than in 1942; second quarter, 8 per cent below; third quarter, 45 per cent below; fourth quarter, 76 per cent below.



As General Electric deliveries, as indicated by latest interim statement, appear to be running at a rate of about $250,000,000 a quarter, and since deliveries came into approximate balance with new orders in the third quarter and were well above new orders of $160,739,000 in the fourth quarter, it is apparent that for some months this company's backlog, though large, must have been declining.

The 1943 experience of Johns-Manville illustrates that at present operating costs even a small decline in volume is important. Sales of $107.4 millions were only nominally down from 1942 figure of $108 millions; but operating costs were nearly $6 million larger than in the previous year. As a result taxes declined from $17.6 million in 1942 to about $11.5 million, yet reported net income was $4.65 million against $5.57 million in 1942. Excluding provision for contingencies, net was approximately $7.7 million, against $8 million. On the latter basis, per share, it was $9.07 against $9.42. Illustrating how reduced tax liability absorbs the greater part of any shrinkage in pre-tax earnings, the difference between 1943 and 1942 tax payment figures about $7 per share on this stock.

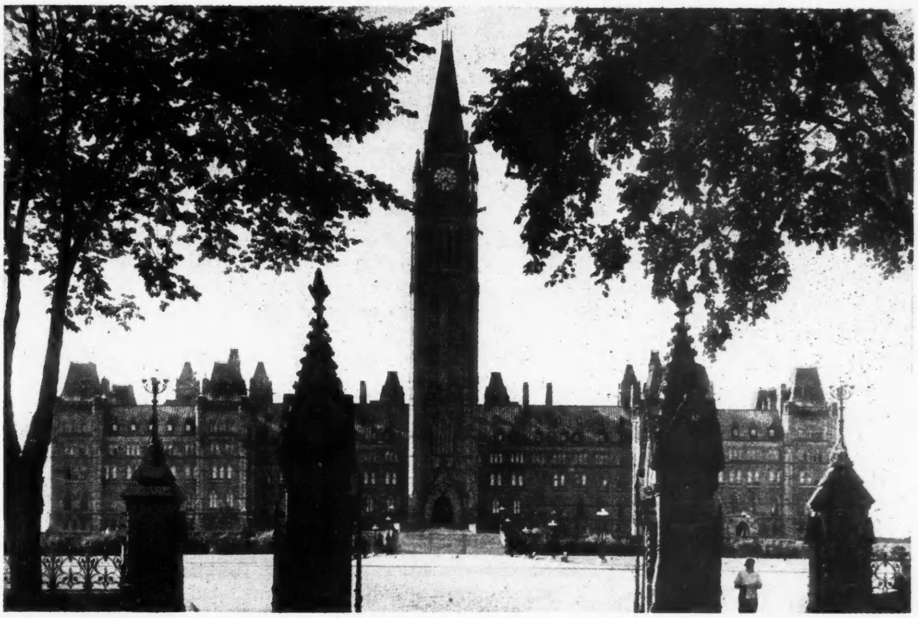
How Tax Cushion Maintains Net

Working so close to the limits of physical capacity, United States Steel Company's gross intake in 1943 of $1,979 millions was only moderately higher than the $1,862 million figure for 1942. But total costs, exclusive of Federal taxes, increased from $1,638 millions to $1,827 millions or a difference of $189 millions. Pre-tax net of about $151 millions was $73 millions less than in 1942 but the cushion inherent in reduced tax liability absorbed about $65 millions of the latter figure. This cut the decline in net income to $7.6 millions, resulting in $4.41 per share for the year, compared with $5.29 for 1942. Since volume even on a full war basis throughout the year can not significantly exceed that of 1943, any further increase in wage costs this year would shave profits still further unless the company can raise its selling prices, the latter appearing improbable.

Bethlehem Steel reported $8.58 per share earned last year, against $6.31 in 1942. However, the showing is not as good as it superficially appears. Despite an increase in sales from $434 millions to $460 millions, operating costs were higher and earnings before Federal taxes actually were about $15 millions below 1942; but against this $15 million drop, Federal tax liability was reduced by nearly $22 millions. Thus the company did not improve its per share earnings because it made more steel and built more ships but because its costs enable it to "save" more in tax liability than it lost by reduced operating profit.

In report after report stockholders will find similar distortions that make things appear to be other than what they actually are—not through any misleading intent by the managements. Even more striking was the paradox that in the fourth quarter Bethlehem was able, through lower tax liability, to "convert" a drop of $22 millions in pre-tax net—as compared with a year ago—into an increase of about $7 millions in reported net income.

Assuming continued war in Europe and no radical increase in present operating costs, industries that appear most likely to match 1943 earnings this year include motion pictures, automobiles and accessories, oils, chemicals, foods, electrical equipment; farm, rail and office equipments; liquors and (*Please turn to page 582*)



Parliament Building at Ottawa — *Gendreau*

THE FUTURE OF CANADA

BY V. L. HOROTH

THE Rowell-Sirois Commission gave in its extensive and competent report on the Dominion-Provincial Relations, published during the early months of this war, a very fitting and at the same time vivid description of Canada's international position. "Canada, in her relation to the United States and the United Kingdom," says the Report, "is in a position similar to that of a small man sitting in at a big poker game. He must play for full stakes, but with only a fraction of the capital resources of his two substantial opponents. If he wins, his profits in relation to his capital are very large, but if he loses, he may be cleaned out."

To continue the simile, the end of the war will find Canada still sitting at the same game, with the stakes higher than ever. On one hand, as Viscount Halifax, British Ambassador to the United States, told a Toronto audience in January, Canada has attained a position of great importance within the British Empire. It will be up to her and the other Dominions whether the British Empire is to emerge from the war as one of the four great powers of the world. For that end, the Ambassador added, the Dominions must pursue a common course with the mother country in foreign policy, defense, communications, and economic affairs.

On the other hand, the war has resulted in a fuller collaboration—military, financial, economic—between the Dominion and the United States than has been known since the colonial days. Their industries have been integrated, with goods moving freely across the international line. The banishment of the tariffs has made possible a more efficient use of natural and labor reserves in both countries. While most of the wartime arrangements will probably have to be discontinued, the need for a greater peacetime cooperation, political and economic, from the viewpoint of safety alone, is already quite evident.

But while "the stakes" are likely to be higher in the future, the Dominion itself can no longer be considered "a small man sitting in at a big game." Though a still young country in an economic sense, she has become a creditor of the British Empire, and her industrial capacity is now that of a power. In view of her large surpluses of foodstuffs, she will be in a unique bargaining position once the Continent of Europe is liberated. From the United States' angle, Canada's international status has also grown in importance. In view of the coming depletion of some of our natural resources, we may come to rely on her to an ever increasing degree for raw materials, woodpulp and non-ferrous metals in particular. Moreover, her industries will be in direct competition with ours for foreign markets in many more lines.

Though Canada's economy has been greatly strengthened as a result of the broadening and diversification of her national production during the Second World War, her international position, and even more her post-war prosperity, will depend on how she works out some of the maladjustments that have been created by the present war. The Minister of Munitions, Mr. Howe, said a few months ago that Canada had undergone in the last four years an industrial transformation that, under normal circumstances, could not have taken place in less than 25 years. It is already quite clear that her manufacturing capacity is overextended in relation to the domestic market. This may mean that she will again have to have large exports and that again her prosperity will be vulnerable to external influences.

Many post-war problems, and especially that of Canada's prosperity depending upon the state of international trade, resemble in many respects the problems that

Canada had to face after the First World War. Hence a short review of the ups and downs of the Dominion's economy during the inter-war period will be helpful in throwing light on the possible solution of the problems created by World War II.

Canada entered the First World War largely a raw material producing country, with Great Britain taking more than one-half of her exports. Broadly speaking, the First World War influenced Canada's economy in two ways. First, new industries were introduced and the old ones expanded. However, most of them were still of the consumers' goods variety. This development lessened Canada's dependence upon British imports. Instead, the Dominion began to buy more from the United States, chiefly raw materials and producers' goods.

The second outstanding World War I development was the rise of new exporting regions. High prices of raw materials resulted in the opening of many new mining enterprises, in the extension of transportation facilities, and in the plowing up of practically all cultivable land in the Prairie Provinces. Unfortunately, the boom continued after the war, and more productive capacity was added, mining and agricultural, some with the help of foreign capital, chiefly American, attracted by the great possibilities of the country.

To meet the interest bill of about $500 millions (some 40 per cent of this amount had to be transferred abroad) on the investments that helped to open up the new resources, Canada had to push her exports, which at that time consisted of relatively few products—wheat, pulp, copper, lead and timber. Thus, despite diversification of national production in 1914-18, the First World War increased rather than diminished Canada's dependence upon foreign trade. As long as the prices of main exports remained high, the country was prosperous, but when they declined during the depression, Canada's economy was hit harder than that of the United States. Even during the late 'Thirties, something like 40 per cent of the Dominion's national income continued to be derived from exports, and its per capita foreign trade was about $180, in contrast with only about $50 for the United States.

In the years between depression and the outbreak of the Second World War, Canada strove to strengthen herself by broadening further her economy and by diversifying her exports. But it was an up-hill job in a world that would not trade. So Canada tried to become more self-sufficient herself. Tariff protection of her industries was increased and gold production encouraged.

Unlike during the First World War, no new land has been put under plow in Canada during World War II, there being in fact a reduction in people on farms as the industries began to attract people. There was further farm diversification, especially in the direction of dairying, raising more hogs, and cultivating more feed grains. With about one million more industrial workers than before the war, and considerably more purchasing power all around, Canada's farm production has become probably more closely adjusted to the needs of the home market than ever before. Canada will unquestionably continue to export farm products, especially if prices are high after the war, but her economy will definitely be less affected in the future by the prices and the volume of these exports.

Stimulation of Mining

The war has naturally stimulated Canadian mineral extraction, but in relation to the total national income it has undoubtedly been less than during World War I. A few new minerals have been added to the list of old ones: chromium, tungsten and tin. Mercury, magnesium and molybdenum, also new ones, are said to have real post-war possibilities. A big expansion has taken place in the refining of aluminum from imported ores. The planned output for 1943 was about 500,000 tons or about five times as much as in 1939. Further expansion will be possible as the great Shipshaw Power development on the Saguenay River is expanded. Since generated power is cheap and available in large quantities, Canada's prospects of continuing as a large producer of aluminum and, for that matter, of other base metals that require cheap hydroelectric power, is good indeed.

The output of gold, which in value leads all other minerals by a wide margin, is being curtailed because miners are needed in more essential industries. The rapid expansion of gold production (it increased 2½ times during the 1931-1941 period) is probably a thing of the past because of the increased production costs. Nevertheless, the rate at which the Canadian dollar will be stabilized to the United States dollar, may result in a price higher than the producers are receiving at present.

It is the great expansion of Canadian industries that can be compared to the great expansion of primary production during the First World War. Between 1940 and 1944 something like $1 billion was spent on new plant facilities and equipment, and the number of workers engaged in manufacturing and construction rose in the same period by about 1,000,000 to over 2,000,000. The value of industrial production at $3.5 billions in 1942, compared with $1.5 billions in 1939, accounted for almost 60 per cent of the total national production. Canada has now machine tool industries, instrument laboratories, synthetic rubber plants—in fact, there are now only a few highly specialized industries which are not located in the Dominion.

Hand in hand with the industries Canada expanded her power resources. Electric generating capacity was built up to some 10 million horse

Comparison of U. S. and Canadian Per Capita Tax Collections, Public Debt and National Income

Fiscal Year end. June (U. S.) or Mar. (Can.)	Per Capita Tax Collections (a) U. S.	Per Capita Tax Collections (a) Canada	Per Capita Public Debt (a) U. S.	Per Capita Public Debt (a) Canada	Calendar Year	Per Capita National Income U. S. (b)	Per Capita National Income Canada(c)
1927	$76.7	$68.1	$281	$492	1927	$626	
1929	80.4	73.9	277	486	1929	654	
1932	65.3	61.3	311	531	1932	374	
1935	76.5	60.2	407	576	1935	444	$315
1937	92.6	71.1	467	606	1937	536	374
1939	93.0	76.7	501	623	1939	523	397
1940	95.5	80.7	518	653	1940	576	469
1941	114.2	111.0	565	738	1941	708	566(p)
1942	156.3	159.5(p)	720	864	1942	887(p)	652(p)
1943	228.0(p)	228.0(p)	1,165(p)	1,065(p)	1943	1,059(p)	769(p)
1944	368.0(p)	266.4(p)	1,616(p)	1,243(p)			
1945	356.0(p)		2,060(p)				

(a) National, State, Provincial and Local Governments. (b) Realized National Income. (c) Available National Income. (p) Preliminary.

Sources: The National Industrial Conference Board, U. S. Treasury Department, Dominion Bureau of Statistics.

power last year from about 6.6 million 10 years ago. Coal production, however, has failed to keep pace with the requirements, and hence more coal has to be imported.

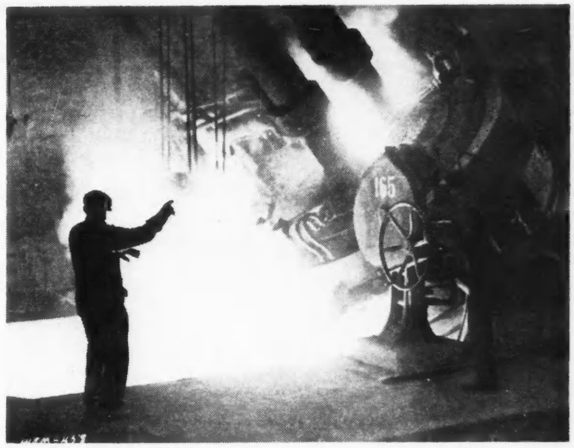
Broadly speaking, there are two ways in which Canada could adjust her overexpanded industrial capacity. (I) With the help of increased tariff protection, the wartime built industries could monopolize the home market and hope for its expansion through the absorption of immigrants. (II) In pushing Canadian exports in competition with the United States and the United Kingdom and in the hope that the greater post-war interchange of goods will aid in absorbing them.

What are the chances of expanding the Canadian domestic market, apart from, of course, increasing the purchasing power of the Canadian nationals through full employment after the war? Here is a country larger in area than the Continental United States, yet only with about one-twelfth of our population. The war has opened up new, virgin parts of the country. The Alaskan Highway has made accessible a vast tract in the Northwest and the discovery and the exploitation of oil fields has stimulated wide interest in the Mackenzie River Valley.

The truth is that real possibilities for the expansion of Canada's market through the absorption of several million immigrants from Europe—and they will be anxious to come—are not too great. As Dr. C. A. Dawson, Professor of Social Sciences at McGill University, pointed out recently, in terms of population possibilities, Canada, like Australia, is destined to stay a small country. Though the land surface of the Dominion is some 3 million square miles, only about 1 million square miles has real potentialities for agricultural settlement, and of this 1 million square miles, more than half of the best land is already occupied. The Maritime Provinces, Quebec and Ontario, can provide new land for only a fraction of their annual population increase. In the Prairie Provinces, the utilization of marginal land—and that is about the only land that is left—depends much upon the prices which farm products command. In the Prairie Provinces and in Columbia land will have to be improved first, chiefly through the building of costly irrigation works, before any large blocks of propulation can be settled on it.

It is the urban population, as Professor Dawson points out, that will grow, while rural population will probably stabilize itself around the present levels. "In terms of climate, resources and competitive location, evidence points against any marked expansion of occupational opportunities in this country (Canada). Indeed we may be pushed to the limit to give chances for livelihood to our present population as augmented by natural increase." Professor Dawson looks for an upper limit of 18-20 millions in the discernible population future of the Dominion. Strange as it seems, in view of the urbanization of Canada, it is the artisans and professional men that will be needed in Canada after the war, rather than the farmers.

Hence, if Canada is to remain basically a small market, let's say no more than 15 million people during the next decade, the Canadian industrialist will have to look for foreign markets to dispose of his surpluses. What will be his chances of competing with the American or British manufacturer? On one hand, he will not have the advantages of mass production that go with a large domestic market. He will be unable to compete, for example, with our automobile and machinery industries, the production costs of which were, and unquestionably will continue to be, lower than in Canada, and will likewise be unable to compete with the British textiles.



Official Photos

An electric furnace in a Canadian gun plant.

On the other hand, the Canadians will have advantage over us in many industries, the manufacturing of paper products, aluminum ware, electrical appliances, certain chemicals, etc., partly because they will have cheaper raw materials and cheaper hydroelectric power, and because the wage rates in Canada are generally lower. The tax burden, too, may be lighter in the future in Canada than in this country. The total Canadian per capita public debt (national, state or provincial, and local) used to be considerably higher than ours, but, as the reader will see from the accompanying table, in 1943 the United States assumed the lead. Similarly the per capita tax collections are now considerably higher in this country than in Canada—even in relation to the per capita national income.

This possibility of lower taxes after the war, and the general American impression that the Ottawa Government is more staid and conservative than the "New Deal" must not, however, be given too much weight. As a matter of fact, a new party, the C.C.F. (Cooperative Commonwealth Federation), whose program goes much farther to the Left than any proposal by our New Deal, has, after upsetting elections in various parts of the country, won a sweeping victory in Ontario, the most industrialized of the Canadian provinces. The party program calls for the expenditure of at least $5 billions on housing, reforestration, and various other job-producing enterprises.

During the immediate post-war period, when the world will be in need of all types of manufactures, the wartime built Canadian industries may not find it difficult to find markets. Any policy that will aid in the expansion of international exchange of goods after the war, will also aid Canada. This is why the Canadians are so interested in the general lowering of tariff barriers.

But suppose the opposite happens after the war and the trend is for the countries to enter into bilateral trade agreements with each other. This would mean the contraction rather than the expansion of the international exchange of goods. Under such circumstances Canada would find herself in a fix similar to that of the post-depression years. She would find that the pound sterling which she acquires on balance in her trade with Great Britain can no longer be used for her purchases of raw materials and capital goods (*Please turn to page* 585)

Another Look At—

OUR SOLUTIONS A YEAR AGO OF THE QUESTION:

"How can I increase my investment income to meet higher living costs and taxes?"

EDITOR'S NOTE: *This investment problem was presented to us about a year ago, at which time we published two proposed solutions. Each worked out to date much better than would have the original portfolio as the accompanying tabulation shows. We believe careful study of the results obtained will be advantageous to many investors. And since successful investment requires continuous supervision and changes from time to time, the authors not only review their proposals of a year ago but suggest various current revisions to keep holdings properly geared to objectives.*

This investor's problem was to increase security income so far as reasonably possible to meet higher living expenses and taxes. His personal status was: 49 years old, married, one dependent son; $5,000 salary, of which 10 per cent was being placed in war bonds; owned home worth $10,000; carried $15,000 straight life insurance; held $2,500 in Series G war bonds, not to be disturbed; retained an emergency reserve of $1,700 in a savings bank. Original portfolio yielded only 3.7% and would have appreciated only 6.9% in year. From this point on the two "guest experts," anonymous both by choice and as a matter of our publication policy, take over.

Comparative Results of Proposals made in Feb. 6, 1943 Issue

	Original Portfolio	Proposal 1 Revised Portfolio	Proposal 2 Revised Portfolio
Total market value of portfolio Feb. 5, 1943...	$27,753.00	$26,650.00	$27,037.00
Total market value of portfolio Feb. 21, 1944..	29,661.00	33,405.00	35,868.00
Dollar value increase....................	1,908.00	6,755.00	8,831.00
Percentage of market value increase..........	6.9%	25.3%	32.5%
Income received..........................	1,111.25	2,017.50	2,265.83
Indicated income yield....................	3.7%	6.0%	8.3%

Revision of Proposal No. 1—By an Investment Counsellor

THE revised portfolio showed an increase in market value of securities held of 25.3% as compared with 13.5% for the Dow-Jones composite average and 6.9% for the original portfolio. However, had this portfolio been under the writer's supervision for the year, some scurities would have been liquidated at higher levels than exist today with substantial increases in principal, for instance, Jones & Laughlin $5 Preferred "B" stock sold above 80, now 71¼. Many of the recommendations made for the ensuing year, as well as some of the securities retained, may approach a level within the next twelve months where liquidation would be advisable. Therefore, such a portfolio should be properly supervised. The small cost for such supervision, which, incidentally is now a deductible item from one's income tax, should be saved many times over by the investor.

While the result is extremely gratifying, market conditions today are not the same as in February, 1943. In order to adhere to the original objectives, as well as to endeavor to prevent any great dissipation of profits in the event of a market decline, certain eliminations and substitutions are in order.

The securities recommended for purchase, increase yearly income from $922.50 to $1,225 or $303, and provide a yield of 7.1% as compared with 5.4% received from those to be sold. Furthermore, at current market prices, the opportunity for enhancement in values appears better; and, in the event of a general market reaction, they should hold up better than the average, while income therefrom appears reasonably assured.

The indicated income yield is 6.98% on the revised portfolio as now constituted. The N. Y. & Queens 3½s is an excellent bond but now selling 5 points above the call price. Profits are also acceptable in the other securities recommended for sale as further appreciation in value appears limited within the next twelve months and there seems to be better opportunities to use funds more productively elsewhere and with a larger income return.

The North Penn Gas 5½s and Republic Steel $6 Prior Preferred are legal for trust funds in the State of New Jersey. Celotex covered its preferred dividend requirements 3.5 times in 1943, is callable at 20 and sold as high as 21 in 1943. Foster Wheeler earned its preferred dividend over 11 times in 1942 and will do equally as well in 1943. Selling for only one third of its net current assets, which amounted to approximately $60 per share according to latest available balance sheet. It is callable at $26. Stokely Bros. covered its preferred dividend 4.8 times in 1942 and is callable at $21. Curtiss-Wright $2 class "A" stock is non-cumulative and callable at $40. It is entitled to $2 in dividends in any year before any payment can be made on common stock, which paid 75 cents in 1943. The class "A" sold as high as 24½ in 1943. Company earned $11.34 on it in 1942. No report is available for 1943 but earnings must have been substantial to warrant paying 75 cents on the 7,432,000 shares of common stock. U. S. Tobacco has a very strong current asset position and has paid dividends continuously for 32 years. This stock sold as high as 29 in 1943.

Briggs Mfg. Co. has good prospects for the "duration"

and also in the post-war period. Pays $2.00 and estimated earnings for 1943 are about $2.75. Climax Molybdenum sold as high as 48½ in 1943 and appears to be in buying zone after its decline of 14 points. Including extras, it paid $3.20 in 1943, with earnings estimated to be about $3.80. It has paid dividends continuously for 11 years. Philadelphia Co. selling at 9 on the New York Curb, has paid dividends regularly for 25 years. In 1943 it paid 60 cents and 1943 earnings are estimated at $1.10 per share of common. Reliable Stores paid $1.00 in 1943 and preliminary report just released showed earnings of $2.47 as compared with $1.61 in 1942. Financial position is strong and while stock is not very active it appears to have good growth possibilities and yields over 7.5%.

The tenuous nature of several of the securities recommended is apparent and the writer may be criticized for his preference for preferred stocks and equities. However, bearing in mind the objectives of this particular business man, there appears to be justification for inclusion of the securities selected both from an analytical and statistical viewpoint, especially when consideration is given to the present low income yield on high-grade bonds and preferred stocks and the tremendous appreciation in railroad securities. While the latter appear to have good possibilities of going higher, there are certain adverse factors existing today which the investor cannot ignore completely and that warrant a cautious attitude. It is always the "unforeseeable event" which upsets the financial markets and if this portfolio were under the writer's constant supervision, he would recommend a cash reserve of at least 20% to take advantage of better buying opportunities which he anticipates within the next five months.

No. 1 Portfolio Proposed in Feb. 6, 1943, Issue

Amount	Security	Value 2/5/43		Value 2/21/44		1943 Income
3M	N. Y. Cent. Lake Shore 3½'s 1998	53	$1590	73¼	$2197.50	$105.00
3M	Chic., Burl. & Quin 1st 5's 1971	74	2220	97½	2925.00	150.00
2M	N. Y. & Queens El. Lt. & Pr., 1st C 3½ 1965	100	2000	110	2200.00	70.00
50	Jones & Laughlin $5 Pfd. B	66	3300	71¼	3562.50	250.00
50	American Sugar $7 Pfd.	86	4300	116	5800.00	350.00
100	Columbia Pictures $2.75 Pfd.	31	3100	38¾	3875.00	275.00
50	Crown Cork & Seal $2.25 Pfd.	37	1850	46	2300.00	112.50
50	Kennecott Copper	29	1450	30⅝	1531.25	150.00
50	International Nickel	30	1500	27	1350.00	95.00
50	Continental Can	27	1350	34⅜	1718.75	100.00
60	Greyhound Corp.	14	840	20¾	1245.00	75.00
100	Westinghouse Air Brake	15½	1550	23	2300.00	125.00
100	General Telephone	16	1600	24	2400.00	160.00
			$26650		$33405.00	$2017.50

Proposed Revision of Portfolio No. 1

Amount	Security	2/21/44 Price	2/21/44 Value	Probable 1944 Income
BUY				
$2000	North Penn Gas Co. 5½'s 1957	102	$2040.00	$110.00
40 shs	Republic Steel $6 prior preferred	93	3720.00	240.00
50 shs	Celotex $1.00 preferred	17½	875.00	50.00
50 shs	Foster Wheeler $1.50 preferred	21	1050.00	75.00
100 shs	Stokely Bros. $1.00 preferred	16	1600.00	100.00
100 shs	Curtiss Wright $2 class "A" stock	16¾	1675.00	200.00
50 shs	U. S. Tobacco Co.	24	1200.00	60.00
50 shs	Briggs Mfg. Co.	28½	1425.00	100.00
50 shs	Climax Molybdenum	34	1700.00	160.00
50 shs	Philadelphia Co.	9	450.00	30.00
100 shs	Reliable Stores	13	1300.00	100.00
			$17,035.00	$1225.00
RETAINED STOCKS				
50 shs	Jones & Laughlin $5 preferred "B"	71¼	$3562.00	$250.00
100 shs	Columbia Pictures $2.75 preferred	38¾	3875.00	275.00
50 shs	Kennecott Copper Co.	30⅝	1531.00	150.00
50 shs	International Nickel	27	1350.00	95.00
50 shs	Continental Can	34⅜	1718.00	100.00
60 shs	Greyhound Corp.	20¾	1245.00	75.00
BONDS				
$3000	Chicago Burlington & Quincy 1st 5s 1971	97½	2925.00	150.00
			$33,241.00	$2320.00

Revision of Proposal No. 2—By a Broker

SINCE my proposed portfolio for increased income and capital growth appeared in the February 6, 1943, issue of The Magazine of Wall Street, the market has advanced 13.5% as measured by the Dow-Jones composite average of 65 stocks. My suggested investment list increased in value 32.5% and brought an income return of 8.3% on the value of the funds invested of $27,037. Had the investor retained his portfolio unchanged his appreciation would have been $6,932.62 less, his income $1,154.58 less.

No. 2 Portfolio Proposed in Feb. 6, 1943, Issue

Amount	Security	Value 2/5/43		Value 2/21/44		1943 Income
5M	Southern Pacific Co. 4½'s 1981	54½	$2725	76¼	$3812.50	$225
5M	Atlantic Coast Line 4½'s 1964	64⅞	3244	81	4050.00	225
60	National Supply 6% Pfd.	66¾	4005	86½	5190.00	540
300	Celotex	9⅞	2963	11¼	3375.00	150
500	Interlake Iron	7	3500	7½	3750.00	175
200	Mid-Continent Petroleum	19¾	3950	25½	5100.00	280
300	New York Central	11¾	3525	18⅜	5512.50	450
500	United Gas Improvement	6¼	3125			
	1 Share new United Gas Improvement each share old			2¼	1125.00	100
	1/3 sh. Phila. Electric for each share			20¼	3375.00	100
	1/12 sh. Public Service N. J. each share			13⅞	578.12	20.83
			$27037.00		$35868.12	$2265.83

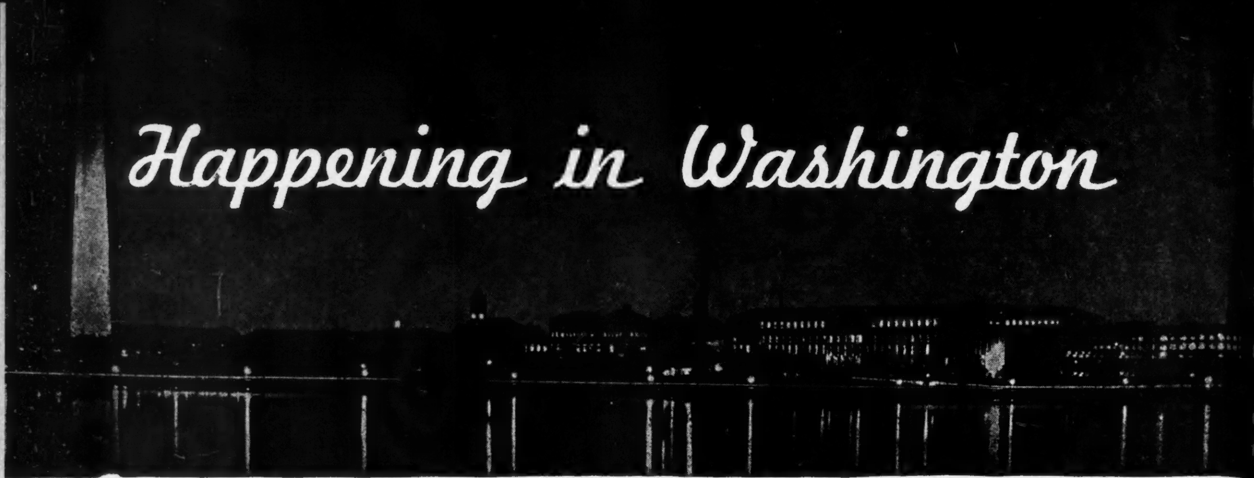
Proposed Revision of Portfolio No. 2

	2/21/44 Price	2/21/44 Value	Paid in 1943	Probable 1944 Income
PREFERRED STOCKS WITH ARREARS:				
100 shares American Woolen, Pfd.	74⅛	$7412.50	8	$800
200 shares National Supply $2 Pfd.	27⅞	2787.50	3	600
100 shares Twin City Rapid Transit, Pfd.	76	7600.00	7	700
COMMON STOCKS:				
300 shares American Light & Traction	17	5100.00	1.20	360
500 shares Interlake Iron	7½	3750.00	.35	175
300 shares New York Central	18⅜	5512.50	1.50	450
Probable yield 8.8%		$34,950.00		$3085

In my opinion, profit taking is in order on most commitments now. The 8.3% yield has shrunk to only 6.3% when considered in relation to the increased value of the list. So, we must bring this return up over the 8% mark again and add fresh enhancement potentialities to the list. A year ago I pointed out that the investor in question was in a position to assume a business man's risk. Because I was bullish on the market I suggested securities with special speculative merit. I am still convinced that we are in a major upward trend and, therefore, I still lean toward sound speculative issues to take advantage of favorable market conditions. A year hence I may have to suggest nothing but high grade senior securities, but in the next twelve months there will still be the opportunity to secure a high income return plus healthy capital growth.

American Woolen paid $8 a share in 1942 and in 1943. Two dollars a share has been declared payable March 17 to holders of record March 7 and I expect the $8 rate to be continued throughout 1944. After the March 17th disbursement there will be $72.50 in arrears remaining. American Woolen Co. is the world's largest producer of woolens and worsteds. The (*Please turn to page* 586)

Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

UNRRA Fund Vote, authorizing appropriation of $1,-350,000,000 for the United Nations Relief and Rehabilitation Administration, came on the heels of isolationist heckling, but was decisive—47 to 14 in the Senate. Political party bias was missing. Senator Vandenberg, Republican, spark-plugged the drive. Outstanding was Congress' failure to insist that this country, contributing two-thirds of the money to be spent, have greater voice in the spending. Like the other 43 participating countries, the United States has one vote.

Equal Rights for women is shaping as a probable plank for both national platforms, with the now dormant Equal Rights amendment as the basis. Rep. Joseph W. Martin, who'll be Republican convention chairman, virtually has promised its inclusion. Democrats are working hard to get legislative action on it, thereby checkmating the GOP move. Rep. Mary T. Norton, only Democratic woman member of the House, will oppose it. It's a delusion which will create inequalities, not relieve them, she contends.

Washington Sees:

Evidence is at hand that President Roosevelt henceforth will battle Congress with no holds barred. His tax bill veto is virtually an open declaration of political war.

Every member of the House must come up for re-election, or retire, in November, and about one-third of the Senators face the voters. The President needs only the House to salvage, by sustaining vetoes, part of the 5-point program he submitted several months ago as the minimum of legislative "musts." But the score at this point is not one to give cheer to the White House.

The President divided honors on Points 1 and 2, saving his contract renegotiation program but losing the Revenue Bill of his demands. Those points were linked in a single measure. The bottom fell out of Point 3 when action was concluded on consumer subsidies. Point 4 involves extension of the Price Control Act. Already there are stacks of amendments and riders which make the results doubtful. Point 5 called for a National Service Act. That was made contingent upon adoption of the other four—and "realistic taxes" had been shunted aside even before the President's message arrived.

Therefore the time has passed for kid-glove action. FDR must fight or quit. And quit isn't in the Roosevelt lexicon.

Back to Work is the goal of returning warriors, says Maj. Gen. Frank T. Hines who has handled the health and economic problems of servicemen in two wars, in his job as Administrator of Veterans Affairs. Of this war, more than 40,000 have gone through his hospitals and into civilian life and he finds no signs of "goldbricking." Many more amputations than in World War I is his forecast. Types of injuries fatal then are overcome now by sulpha and plasma. But these cases create a reemployment problem that counsels study now, Hines warns.

Axis Filtration into American business prior to the war is paying dividends now—to the United States. Plants, scientific, and technical facilities built up through the years by Germany are turning out production against that country. Trading, banking, and insurance established by the Japs, and shipping created by Italy, are making their contributions. Patents seized and immobilized, says Alien Property Custodian Leo T. Crowley, exceed 35,000. Cash and physical assets taken over run into hundreds of millions of dollars.

Farm Security Administration has created turmoil in Congress and in the farmland, therefore it will be abolished. In name, that is. By the simple expedient of changing the title to Farmers' Home Corporation, its supporters have planned a way to retain all of the old activities, add a few new ones, combine with all the job of the old Farm Credit Administration, itself a contentious agency for many years. Safe bet is that the plan will go through as scheduled.

Small Business is the first to feel the topping out in Treasury spending for war. Already there are scattered instances of increasing unemployment in some localities; and it is more with small concerns than with big corporations. The latter will naturally cut out sub-contractors as cut-backs come, strive to keep their own help busy as long as possible.

AS WE GO TO PRESS

It is too early to jump to conclusions about the longer political consequences of Roosevelt's veto of the tax bill and the sensational repercussions that immediately followed.

The theory that the President has deliberately decided to make war on Congress -- and ask the people next November to give him a supporting majority in Congress -- is questionable. Mr. Roosevelt knows his politics and his history. No President has ever won such a fight with the Legislature. Examples are Woodrow Wilson and Roosevelt's unsuccessful efforts to "purge" certain individual members, most notably Senator George. Congress, especially the House, is closer to the voters than the President. Bungling as it may be, it does not usually misread public opinion.

The President's prompt, and almost abject, letter to Senator Barkley, explaining that he did not mean to impugn the personal integrity of the members suggests that he either had no plan to make a campaign against Congress or, if he had one, he changed his mind when he saw the blistering reaction.

Most Democrats hope that the "incident" will result in closer cooperation henceforth between the President and the Democratic majority in the Senate and House. If so, no lasting damage will have been done to Roosevelt's reelection prospects. Regardless of personal disagreement, most incumbent Democrats want Roosevelt to win the election. Since most voters vote a straight ticket, defeat of Roosevelt would defeat most Democratic candidates outside of the deep South. The Solid South will continue to elect Democrats, but here the incumbents have a patronage angle which would make them prefer Roosevelt's reelection.

On the other hand, a continuing stalemate between Roosevelt and Congress -- especially a continuing row -- would aid Republican election chances considerably. No matter how experienced or able he may be, a President who can't lead Congress will lose considerable public spport. That was Hoover's sad experience after 1930.

The Baruch Report blueprints the conversion from war to peace but requires a willing Congress to implement and difficulty already is beginning to set in at that point. Lawmakers have ideas of their own on the subject: at least ideas represented by them as their own.

"It is easier to convert from peace to war than from war to peace," Baruch cautioned. Not mentioned in the report but basic in the analysis of that truism is the fact that speed is of the essence in the former, whereas money gains importance in the latter.

All indications now point to Baruch's triumph over the Comptroller General. The latter's pre-audit system has been described by Baruch as quibbling the Nation into a panic. Comptroller General Lindsay Warren defends the slower technic as protection for the taxpayer.

Baruch's attitude on quick termination of war contracts, speedy settlement, already was well known. The report added little on that score. But it formalized a plan of action, set the wheels in motion. It revived talk here of war's early end. Its release was held back until after the Fourth War Loan Drive.

President Roosevelt's victory on the subsidy issue chalks up another win for the woman's vote. The kitchen lobby swung sufficient votes to save FDR's veto from being overridden.

The antisubsidy bloc fell only 25 votes short of overriding. Confidence remains that its objective can be attained in another direction. A rider on the bill to revive the Office of Price Administration seems probably.

Next element of the national structure that must come to Congress for aid, or perish, is the educational. Enlistments, Selective Service, war industry, has emptied classrooms; special military training has only partly refilled them.

Announcement that specialized military programs are to be dropped will draw another 110,000 students from halls of learning, further deplete incomes. Universities already operating at the financial danger line can't stand it much longer.

Violent attack at Truk is seen in military circles as the first real thrust in the comeback trail in the Pacific theatre. Actual goal was to pin down garrisons there, cover up action in less-fortified, but strategically important, nearby islands.

Zeal for economy frequently brings strange results. With international relationships on a 24-hour basis and world re-making in process, Congress has lopped the State Department's budget for foreign conferences. The Department was only guessing at the costs, anyway, said Congress. So Congress made its own guess.

The realtor lobby has little chance of putting through its bill to concentrate on post-war home building by holding out the inducement of tax exemptions. Action by Congress on that point could only be declaratory. Local and state agencies actually pick up the revenue.

Real purpose of launching the campaign here rather than in the city halls and statehouses is to offset a large-scale public housing agency, get slum clearance funds diverted fully into private hands. But Federal Housing Agency already exists and a bureau once established rarely gives up the ghost.

Talk of a revived Home Owners' Loan Corporations is echoing through the halls of Congress. Despite glowing reports of after-the-war prosperity, and assurances depression isn't inevitable, a realistic approach seems: returning soldiers, home owners, aren't going to be able to swing readily into mortgage principal payments.

Cheering financial note for taxpayers is the fact that while war's tempo is quickening, expenses of the conflict are dropping below estimates. The War Department will "save" about 25 billion dollars this year. It's pricipally industry's contribution. Cost of items have dropped almost that much.

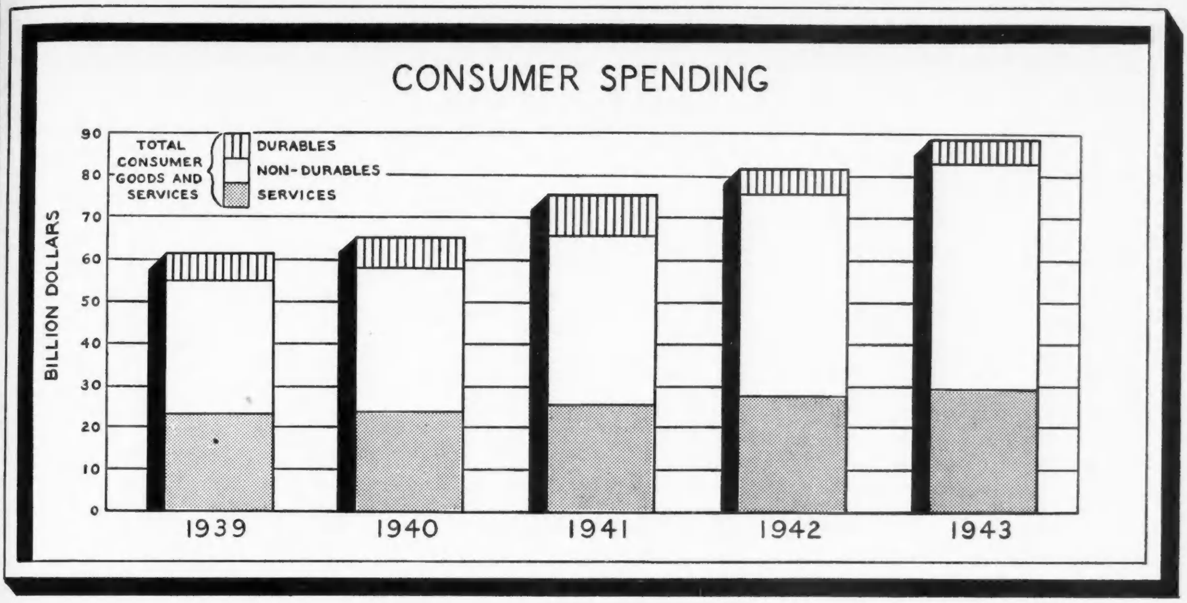
Withal, the President has asked for a second budget of 100 billion dollars. If that amount is appropriated and expended in 1954 it will mean the Nation is spending slightly more than two dollars for each one taken in by the tax collector.

Latest report on the self-consuming ball of fire that once was Berlin, is that the last 15 raids contributed 26,360 tons of bombs to the Nazi capital. That's five times the tonnage by which Hitler sought to eliminate London in 1940-1941.

Oil is looming again as a prime subject of Congressional concern, but this time the future rather than the past is being probed. The Truman and other committees have presented the releated questions of resource and depletion in a manner that has pointed up the problem strikingly.

Alarmists who suggest permanent rationing find no support among government experts in the field. At wartime rates of consumption the supply would be used in 20 years. Present supply sources wouldn't lubricate another war, says Administrator Harold L. Ickes. The prospect of either requirement isn't great.

Gov. John Bricker of Ohio set Washington back on its heels with a blast against union abuses, then lost all the ground he gained by 24 hours devoted largely to platitudes. Lincoln Day speaker in the Capital, he was paraded before the hyper-critical press the following day. He didn't click.



War-time Trends In Consumer Spending

BY E. A. KRAUSS

FOR those who are prone to bewail the rigors of life in our war economy, a factual study of the latter is likely to be full of surprises. Viewed from the standpoint of economic cause and effect, it is replete with important future connotations.

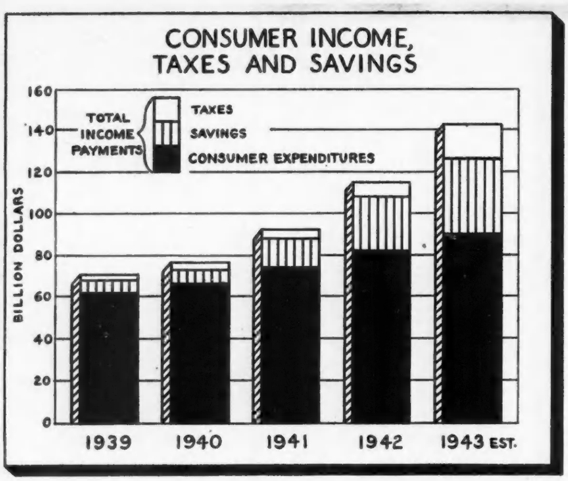
We are all aware of the magnitude of our war effort, of the production miracle performed by industry in such an amazingly short period. But perhaps few fully realize at how high a level, nevertheless, output for civilian use has been and still is maintained. This testifies not only to our organizational talent and ability to expand quickly but more particularly to how far we were, before the war, from fullest utilization of our industrial apparatus and economic resources. The latter perhaps is the most significant conclusion forced upon us by the record of wartime civilian production, for this record was achieved without benefit of expanded facilities and frequently under severe stress from manpower shortages and a multitude of restrictions. The outstanding fact is that the American economy has been able to produce far more than anyone supposed it could, and consequently it has met the challenge of the war without having to diminish aggregate civilian consumption below the 1939 level. Actually, the latter is running considerably higher.

This is not to say that war and its inevitably curbing influences left the civilian goods supply undisturbed. Incisive shifts, as we all know, did occur, leaving their marks on everyday life. Also, there have been evident scarcities but these reflected increased demand as well as decreased supplies. On the whole, the extent of curtailment forced upon the consumer has been relatively small indeed. As far as vital needs are concerned, we have suffered little even according to American standards. This finds full reflection in past and current records of consumer expenditures and nation-wide retail sales. Both since the war have reached consecutive new highs as our national income continued to soar in the wake of rapidly expanding war production. If, nevertheless, hardships did occur it was not so much for lack of goods but for lack of the wherewithal to buy them on the part of those whose income lagged behind rising living costs.

The war-time achievement of our civilian economy is aptly illustrated in the accompanying table, showing gross national production or expenditures from 1939 to 1943 and a break-down of the total according to uses. The table is self-explanatory; it highlights not only the rapid rise of war expenditures, but paralleling it, the constant upward trend of expenditures for consumer goods and services and the virtual halt in private gross capital formation.

According to official estimates, consumer expenditures last year amounted to over $90 billions compared with $82 billions in 1942 and $61.7 billions in 1939. However, more than two-thirds of the rise since 1939 and practically all of the rise since 1941 is accounted for by higher prices. Nevertheless, 1943 expenditures, in terms of 1939 dollars, still came to roughly $70 billions or some 13% above 1939. On the other hand, the 10% increase in absolute expenditures between 1942 and 1943 compares with an estimated average price rise of 7% during the period; it means that consumer expenditures were rising faster than the cost of living. Yet it would be wrong to conclude that the number of units of goods and services flowing to consumers increased markedly during that span. Rather, the swelling dollar volume of expenditures finds its explanation in a widespread trend towards higher-priced goods, in the shifting towards more plentiful merchandise, to hidden price increases and to the fact that in such basic commodities as food and clothing, curtailment of consumption was not as drastic as first expected. Still it is obvious that real consumption in 1943 was at least equal to any year since the war began and considerably above immediate pre-war levels. There is little chance of any drastic encroachments for the remainder of the war, except perhaps in the available food supply.

In this total picture of surprisingly well maintained consumption, or production for consumption, important divergencies are observed. Expenditures for durable



goods, after a 1941 peak of $9.1 billions, dropped sharply in the early part of 1942. The value of the group's main components, automobiles, household appliances and radios continued to decline in 1943 but purchases of jewelry and automotive parts increased while buying of furniture and house furnishings held fairly close to 1942 record volumes.

On the other hand, outlays for non-durable goods and services, in current dollars, are far outrunning those of preceding years. In major part this is due to an enormous spurt in apparel buying and higher food consumption, apart from the all-embracing rise in prices. To mention just a few examples. 1943 dollar sales by selected apparel stores in 1943, according to Department of Commerce data, were 100% greater than in 1939. Physical output of clothing and shoes for civilians averaged about the same in 1943 as in 1939. Food production has increased sharply since the prewar period, and in 1943 per capita food consumption by civilians, though reduced from the 1942 volume, was still 2% larger than in 1939.

Total expenditures for non-durable goods last year reached a new peak of some $53.8 billions, up from $48.0 billions in 1942 and from $32.6 billions in 1939. It is of course impossible to measure accurately the effect of quality changes; also, the consumers freedom of choice has become seriously restricted. But in a war economy, these must be regarded as minor irritations. The important point is that it has been possible to maintain such high civilian production in the face of huge and urgent war output. That it could be done at all was largely due to four factors: (1) only a part of consumers goods plants could be converted to war output. (2) the flow of materials and goods was partly maintained from inventories. (3) there was sufficient manpower, at least up to the end of 1942, to enable those industries not convertible to war production to meet rising consumer demand with increased output. (4) up to the end of 1942, the demand for consumption commodities of the Armed Forces and for Lend-Lease remained relatively small. In 1943, this picture changed somewhat. Manpower often became a bottleneck, affecting certain civilian goods production. Moreover, military requirements of consumption goods rose, restricting the civilian share of production. The result was greater reliance of inventories to meet the still rising civilian demands.

To analyze war-time trends in consumer spending, the changes and directions apparent last year are particularly pertinent, the more so as there has been no deviation from the basic pattern building up since the war. As previously mentioned, clothing and related items showed by far the greatest increase; such expenditures last year soared 20% to $12.6 billions, compared with $8.4 billions in 1941. This large percentage increase is by no means explained by rising prices alone; rather, it reflects the wide diffusion of rising income among all classes and marked improvement in employment opportunities for women. The lack of other spending outlets, notably in the consumer durable goods field, is an additional factor. This war-time phenomenon probably is of little long-range significance. Spending for apparel invariably fluctuated with income receipts and will continue so after the war.

Food and beverages rank second with a 16% increase to $32.2 billions, compared with $22.3 billions in 1941. This boost in over-all consumption materialized despite rationing and fairly rigid price controls. Higher income led not only to greater per capita food consumption but to a marked trend towards better, higher priced foods. Prices, too, rose sharply in the early part of 1943. In the beverage field, liquor sales despite unofficial rationing mounted considerably during the first half of the period. The total expenditures for food were further swelled by the spreading of the "dining out" habit to supplement rationed food supplies of individuals. Normally, food sales primarily fluctuate with income. But war-time emphasis on food consumption may well be of more permanent significance. Existing scarcities despite a high level of total consumption are principally due to larger food purchases of lower income groups, leaving less available for those accustomed to buy all they want. The former's experience with a better table, granted adequate post-war income, may well lead to continued post-war emphasis on food at the expense of other spending outlets, though at present this point is debatable.

1943 expenditures for tobacco in all forms rose 12% to $2.8 billions, compared with $2.2 billions in 1941. With price controls quite rigid, rising prices found reflection in quality deterioration rather than in higher prices to the consumer. No particular long-range significance can be laid to the war-time spurt in tobacco consumption; rising income was the primary factor.

On the other hand, public spending for gasoline and oil dropped 18% to $1.6 billion against $2.4 billion in 1941. Considering the price rise for these products which occurred during the period, prior to institution of rigid price control, the relative decline was even greater, reflecting chiefly rationing. The drop of course is purely a war-time phenomenon and a sharp rebound can be expected with future relaxation or abandonment of rationing. When it comes, it may be to a considerable degree at the expense of other spending outlets, probably including clothing and food.

Spending for "other non-durables" comprising a wide variety of goods not included in the aforementioned main groups, last year rose 13% to $6.1 billion, compared with $4.7 billion in 1941. About half of the increase is due to higher prices, the remainder representing mounting physical volume.

Less Spending for Durable Goods

A different picture presents itself in the durable goods field. Consumer spending for durables in 1943 declined some 2% to $6.3 billion, compared with $6.4 billion in 1942 and a similar amount in 1939. The drop in physical volume, however, considerably exceeds the 2% de-

cline in dollar volume, in view of sharply higher prices. This explains, too, the insignificant decline from 1939 since obviously, durable goods sales last year must have been far below pre-war levels.

More specifically, sales of automobiles and parts tumbled 27% to a mere $0.4 billion, compared with $3.3 billion in 1941 and $2.3 billion in 1939. Sales of other durables were far better maintained. Furniture, house furnishings and equipment dropped only 6% to $3.8 billion, against $4.3 billion in 1941 and $3.0 in 1939. Since prices were uniformly higher, however, the decrease in physical volume must have been notably greater. But furniture sales in particular continued at a fairly high level, in line with great activity in the furniture manufacturing field until halted, later in the year, by the acute lumber shortage. In all the groups just mentioned, the post-war rebound will be very substantial, largely financed out of war-time savings but possibly to a limited degree also at the expense of other spending outlets.

Other durables, comprising a long list including appliances, hardware, building materials and jewelry, to mention the most important components, rose 15% last year to $2.1 billion, against $1.8 billion in 1941 and $1.1 billion in 1939. This increase, countering the general trend, is largely accounted for by a sharp rise in jewelry sales which last year came to fully $1 billion. Excluding this item, a small actual decrease is shown with an even larger decline in physical volume indicated in view of generally higher price levels for this type of merchandise. After the war, jewelry sales—barring a severe inflation—are likely to fall back to more normal levels but spending for the other components should rise materially. Potential demand is enormous.

$29 Billions Spent for Services

Consumer spending for Services in 1943 rose 5% to an aggregate $29.1 billion, compared with $27.6 billion in 1941 and $22.7 billion in 1939. Not only is the rise in major degree due to higher prices, but actual services rendered, in terms of units, were considerably below earlier levels in further reflection of higher price levels but also of manpower shortages which have notably curtailed consumer services as a whole. Among the individual components, expenditures for housing is by far the most important. Such expenditures last year rose 3% to $8 billion, compared with $7.4 billion in 1941. In view of the quite effective control over rentals, this increase is not so much due to higher rental rates as such but to a considerable rise in actual rent payments by many consumers, formerly paying quite nominal amounts but since the war shifting from low-cost communities to high-cost urban centers, mostly in connection with war work. Thus a reversal of the war-time trend in such expenditures may be in store after the war. The group does not include expenditures for private building which are regarded savings rather than expenditures. Thus a post-war revival of residential building, practically discontinued during the war, will not affect housing expenditures as understood for the purpose of this study.

Home maintenance last year rose 3% to $1.8 billion, compared with 1941 expenditures of $1.5 billion. In view of generally higher price levels for materials and costs entering home maintenance, an actual decline is indicated, possibly as much as 16% from 1941. A sharp reversal of this trend is indicated after the war.

1943 expenditures for household utilities, that is gas, electricity and fuel oil, mounted 8% to $2.8 billion compared with $2.4 billion in 1941. The bulk of this represents a genuine increase in view of largely stationary rates for gas and electricity. It should be well maintained, if not tending higher after the war when fuel oil restrictions for heating purposes are abandoned and new residential building is adding to the potential.

Last year's expenditures for personal services advanced 11% to $2.2 billion, against $1.8 billion in 1941. The rise is entirely due to higher price levels and actual services rendered declined because of labor shortages. Expenditures of this kind should expand after the war, when manpower is again more plentiful, but over the longer term will largely be governed by income trends.

Expenditures for transportation, despite largely stationary rates, rose sharply in line with expanding war-time requirements. In 1943, the gain was 14%, to an aggregate of $3.4 billion compared with $2.6 billion in 1941. The bulk represents a real increase, reflecting greater need for traveling and commuting, primarily in connection with the war effort. After the war, such expenditures are likely to shrink unless income continues at a fairly high level although in such a case, at least a partial offset may be found in high war-time savings, some of which may be used for post-war traveling. But there, too, economic security must be regarded a prerequisite.

The 7% increase in amounts spent last year for medical care only partially reflects higher medical fees. The bulk perhaps is the result of rising income, permitting better attention and prompter medical treatment when needed. A total of $3.5 billion were spent last year compared with $3 in 1941. The future trend will largely depend on income, apart from the general state of health of the nation.

Recreational spending in 1943 rose 4% to $2.4 billion, against $1.9 billion in 1941. Prices no doubt averaged considerably higher than 4%, yet the over-all rise was limited to that figure, despite greatly expanded incomes, by relative less spending for (*Please turn to page 581*)

GROSS NATIONAL PRODUCT OR EXPENDITURES
($ billions)

	1939	1940	1941	1942	1943E
TOTAL	88.6	97.0	119.2	151.6	185.0
Government expenditures	16.0	16.7	25.7	61.7	96.7
for war	1.4	2.7	12.5	49.1	87.1
non-war	14.6	14.0	13.2	12.6	9.6
Output available for private use	72.6	80.4	93.5	89.9	88.1
Private gross capital formation	10.9	14.7	19.0	8.0	-1.1
Consumer goods & services	61.7	65.7	74.6	81.9	89.2
whereof: durables	6.4	7.4	9.1	6.4	6.3
non-durables	32.6	34.4	40.1	48.0	53.8
services	22.7	23.9	25.4	27.5	29.1

E-Estimated.

Money Circulation Is Above 20 Billion Dollars, With Nearly A Fourth Of It Apparently Used To Conceal Tax Avoidance And Off-The-Record Business

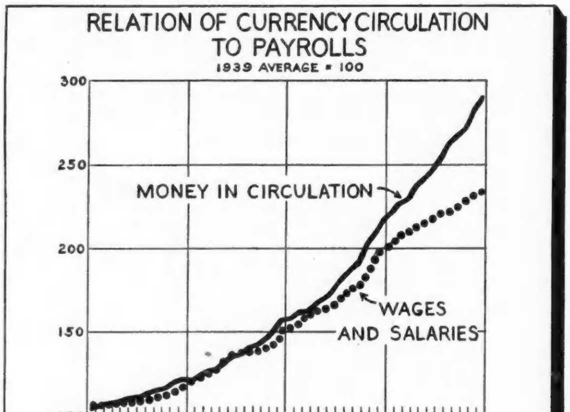
$150 Per Capita In Currency

BY JOHN C. CRESSWILL

TODAY there is approximately $150 of currency in circulation for every man, woman and child in the United States. The figure compares with about $50 per capita in the last pre-war year (1939), with $39 in 1929 and with $35 in 1914.

This is supposed to be a "bank money" country. For a great many years, the trend was to settle more business by bank checks, less by currency. Up through 1930 bank deposits reflected both the long-term growth of business volume and the ups and downs of the business cycle; while the volume of outstanding currency was highly static.

For example, in 1922 the monthly average currency circulation was $4,541,000,000 and in 1930—eight years later—it was $4,562,000,000. The first significant change in long-term trend developed as a result of widespread bank failures in 1931-1932. By February, 1933, the currency volume had increased to $6,545,000,000. After the banks reopened on a sound basis—which progressviely became more liquid than ever before—there was a partial and temporary reversal. By early 1934, the currency volume was back down to $5,289,000,000, or only some 13 per cent more than the average of the '20's.



Then came the business recovery period of 1935-1937, during which—by late 1937—currency volume expanded to $6,561,000,000. There was no inflationary significance in this increase—as the term "inflation" is popularly interpreted. It reflected in predominant degree simply the rise in employment and payrolls; plus the fact that—with New Deal redistribution of the national income becoming effective—a large share of the increased consumer income went to persons who had never maintained bank deposits.

But in the depression year 1938 the currency volume not only failed to decline, it went even higher. By the close of 1938 it had made a new peak at $6,856,000,000. The war clouds were gathering. Large amounts of refugee funds were seeking safety in dollars and, for reasons best known to the owners, substantial amounts were tucked away in the form of hoarded currency, rather than readily traceable bank deposits. This factor, as well as rising business activity, was also operative in 1939, by the end of which year the currency circulation had reached $7,598,000,000. Undoubtedly there was some increase in cash hoarding by American citizens also—as there always is when people anticipate war—but there is reason to believe that this did not figure largely in the over-all picture.

As compared with the 1939 monthly averages of currency volume, there was an increase of $1,645,000,000 in 1940; of $4,072,000,000 by the end of 1941; of $8,322,000,000 by the end of 1942; and of $13,352,000,000 by the end of 1943. The record total of $20,440,000,000 reached in December was equal to about 42 per cent of total *deposits* of all reporting Federal Reserve member banks. For perspective, it was not until 1915 (when currency circulation averaged $3,376,000,000) that the total deposits of *all* banks in the country passed $19,000,000,000!

But the most significant part of the story of what is going on is told by the accompanying graph. In this, with the 1939 averages as the starting base, we present indexes for money in circulation and for total wage and salary payments. It will be seen that a fairly close relationship was maintained between the two lines until late 1942. That is, despite all other factors, the rise in employment and payrolls was a quite acceptable explanation of the increase in currency volume in 1940, 1941 and most of 1942.

However, the relationship became more and more distorted in 1943. By December the currency index was some 55 points above the wage-salary index, whereas at the close of 1942 it had been only 17.5 points higher, and in June, 1942, it had been only 1.5 points higher!

What these figures tell us is that there is some "dirty work at the cross-roads"—and plenty of it! Since we can assume that the trend relationship of the two chart lines for most of 1940-1942 was "according to Hoyle," the conclusion is inescapable that the money circulation peak of $20,440,000,000 at the end of 1943 was almost $5,000,000,000 more than could be accounted for by the wage-salary level. That is, had the previous pattern been projected, the wage-salary level at the end of 1943 would have "explained" a currency volume not exceeding about $16,500,000,000, in comparison with actual figure of $20,440,000,000.

Beyond this highly inter- (*Please turn to page 585*)

1944 SPECIAL

Re-Appraisals of Earnings and Dividend Forecasts—

PART III

Outlook and Ratings for Individual Merchandising; Farm, Rail, Electric and Office Equipment; and Miscellaneous Stocks

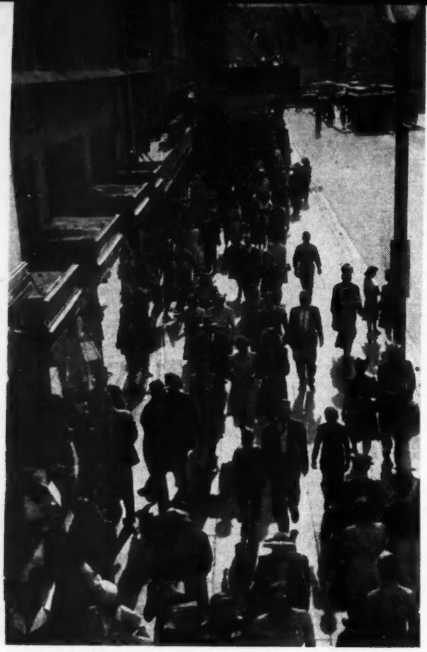
To protect one's capital so far as possible against erosion due to changing conditions—it has always been important for investors to re-appraise periodically all holdings in which a risk factor is inherent. Today, more than ever before, methodical review and judicious "second thought" are called for under the beginnings of our transitional war-peace economy.

It is to meet this essential need of "stock-taking" on investment holdings that The Magazine of Wall Street, as for many years past, presents its Security Re-Appraisals and Dividend Forecasts at six-month intervals. Since our readers in the aggregate hold stocks in many hundreds of corporations, lengthy individual analyses of all important companies at one time would be manifestly out of the question because of space limitation. Moreover, only by coverage of a large number of companies, industry by industry, can this feature be of maximum usefulness to investors in the guidance that it provides as to *comparative* values and prospects. Therefore, in the material on the following pages, we have endeavored to present as concisely and conveniently as possible the most pertinent information and ratings on the maximum possible number of corporations.

The tabulated statistics, ratings and individual comments for each stock group are preceded by an extended background analysis of the position and prospects of the industry, written by qualified specialists. The grouped statistics on individual companies are self-explanatory. When carefully studied in relation to the accompanying individual comments, we believe this information represents the most practical and useful "bird's-eye" appraisal that can be devised for the convenient use of investors.

The key to our ratings of investment quality and current earnings trend of the individual stocks—next to the last column in the tables, preceding comment—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal; while the accompanying numerals indicate current earnings trend thus: 1—Upward; 2—Steady; 3—Downward. For example, A 1 denotes a stock of High Grade investment quality with an Upward current earnings trend.

The Market Rating—last column in the tables—represents our judgment of longer-term potentials and is not intended as *current* advice on timing purchases or sales. For trend timing advice, follow our regular market analysis in the forepart of each issue. If, however, investment income is the primary objective and if one is willing to ignore interim fluctuations, stocks indicated as Favored for Income may be currently purchased. The key to these ratings is: W—Favored for Income; X—Favored for Appreciation; Y—Should Move With Market; Z—Under Average Prospects for the longer term regardless of current action.



Divergent Trends for Merchandising Shares

BY J. C. CLIFFORD

DESPITE shortages in many lines of merchandise, 1943 in terms of dollar volume proved a banner year for the retail trade. The constantly rising national income, mounting to an estimated $148 billions from $120 billions in 1942, together with remarkably high production of most consumer goods despite the magnitude of the war effort confounded earlier predictions of a gradually declining retail volume. Instead, for the fifth consecutive year, sales rose to a record high of $62.26 billions, an increase of 10% over 1942 and 64% over the 1935-39 average. December sales of $6.71 billions, highest monthly total on record, contributed materially to last year's gain.

However, these figures do not tell the whole story. Price increases accounted for nearly all of the gain in dollar volume. After adjustment for price changes, 1943 turnover was only 1.4% above that of 1942 and 7% below the 1941 record high. It is significant, however, that even in terms of pre-war dollars, the 1943 retail volume still exceeded that of 1939, amounting to $47.6 billions against $42.5 billions respectively. Nothing could drive home more forcefully the fact that in spite of the enormous proportions of the war effort, we had "butter" as well as "guns," in fact more than in the years preceding the war although quite naturally, war factors caused considerable shifts in the respective weights of the components comprising our "butter," that is the aggregate of civilian goods available.

Reflecting manufacturing restrictions and rapidly dwindling inventories, durable goods sales dropped 9.5% to $9.10 billions with virtually all components participating in the downtrend. Dollar sales of the automotive group declined 11% despite widespread branching out into new lines; building materials and hardware stores had a sales drop of 15.7%, home furnishings stores one of 10% reflecting the steadily tightening supply situation in these fields. The lone exception countering the downtrend in the durable goods sector were jewelry stores which registered a 28.7% increase in dollar sales which last year came to $1 billion, confirming the unprecedented buying rush noted for some time in this field.

Non-durable goods stores, principal beneficiaries of high war-time spending, boosted their 1943 dollar volume 13.5% to $54.16 billions, in large part reflecting the upward march of prices which occurred during the period. In this category, the apparel group stands out with a 22.9% gain; drug stores boosted their turnover by 20.2% and the general merchandising group, comprising department and variety stores, by 10.2%. Gains of the three last mentioned groups, apart from the price factor, additionally reflect fairly prompt replacements and greater concentration on higher-priced items.

The sales gain of food stores was limited to 9%, partly due to price ceilings but also because of relative shortage of some foods and rationing. Eating and drinking places, doing a prolific business, swelled their volume by 29.2%; this large percentage gain also mirrors less effective price control in this field which incidentally was not inaugurated until April 1943.

It is interesting to note that retail sales of non-durable goods just about kept pace with the rise in consumer income, after taxes, despite the fact that durable goods sales fell well below pre-war relationships. While this points up the changes which occurred in the basic supply situation, it is also evidence of general effectiveness of price control since without it, a far greater spillover of buying power from the durable to the non-durable field would undoubtedly have occurred.

Throughout the last quarter of 1943, retail sales rose sharply with the Christmas buying rush culminating in November. Incidentally, the importance of inventory liquidation in the flow of goods to consumers is illustrated by the fact that almost one-third of the high December volume was reported to have come out of inventories, leaving the latter substantially below pre-Christmas levels of about $6.22 billions. A year earlier, they were $7.09 billions. Currently, they may amount to no more than about $4.5 billion.

Earningwise, the general pattern outlined above finds reflection in the results of the various retail outlets. They were, on the whole, fairly well maintained despite variations testifying to the multifarious problems which affected retail operations during the year. In 1944, these currents must be expected to become even more pronounced. Depletion of inventories is further progressing and the supply situation is likely to tighten. In the durable goods field, especially, no early improvement is in sight. Schedules for increased output of consumer lines have been shelved. The 703 civilian item list on which a start was promised early last autumn remains unimplemented by necessary WPB action in line with the policy of the military which at present frowns on

larger scale resumption of civilian production. Similarly, OCR plans for revival of manufacture of a selected list of electrical appliances have been postponed. Barring a reversal of these decisions, production for civilian consumption as a whole will remain largely stationary around existing levels as in the manufacture of soft goods, too, no marked changes are anticipated over the immediate future. With inventories lower, this points to a smaller over-all supply, with probably increasingly mixed trends within the total supply picture.

Woolen and worsted goods can be expected to be more abundant, the result of more liberal wool allotments by the Government. On the other hand, rayon goods supplies are likely to shrink as war requirements of rayon yarn continue huge. The outlook for cotton goods is somewhat obscure because of the uncertainty over size and sufficiency of Government stockpiles. Little change is looked for in the general food supply, and consequently in food store sales, although variations within the over-all picture may always occur.

Broadly speaking, sales potentialities should not be affected very considerably by merchandise shortages for the duration of the European war but demand may slump severely when employment uncertainties are created by widespread war contract cancellations following a sudden end, or approach to the end of the war in Europe. The magnitude of such a decline and its duration will be determined by the effectiveness of Government and business policies in speeding reconversion and taking up the resultant employment slack.

Of late, retail sales after a temporary post-Christmas decline have again been uptending but because of the substantial gains made in 1943 and the tighter supply situation now developing, most concerns may experience a moderate recession in volume and earnings eventually. Taxes in many cases will run higher in 1944 and costs are likewise rising. In some lines, especially the food group, the price squeeze due to ceilings continues to narrow operating spreads although on the whole, they should be fairly well maintained elsewhere.

Based on existing buying power alone, demand prospects continue excellent but they may be increasingly circumscribed by psychological factors arising from the outlook for peace in Europe. As peace approaches, public spending is likely to become more cautious; on the other hand, prospects of a longer war in Europe, meaning no early interruption in current high employment and consumer income, can be looked upon as a distinct buying stimulant within the restrictions imposed by war time conditons, that is supply factors and, perhaps increasingly so, the impact of heavy income taxes on individual pocket books.

Within this broad outline, demand prospects vary among the various retail groups. *Department stores* last year fared best and should do well again this year. Declining sales in durable goods, never a major factor, were more than offset by sharply higher turnover of soft lines, boosting over-all volume to new highs. Large inventories, effectiveness of standardization of many products and widespread "upgrading" of consumer demand boosted volume and generally favorable operating spreads prevailed. The latter, more or less typical of the entire merchandisng field except the food group, was achieved by discontinuance of special sales, smaller returns, curtailment in special services and deliveries and a large proportion of cash sales. Resultant savings were only partly counterbalanced by rising expenses, notably wages. While managements exhibited great ingenuity in the use of substitutes to supplement curtailed supplies, the superior performance of department stores and merchandise chains was partly the result of their strong relationships with important manufacturers who made a special effort to keep these large buyers supplied even at the expense of losing smaller accounts. Unless and until demand trends are disturbed by approaching peace in Europe, this general picture is likely to hold good in its broad outlines. However, progressive depletion of inventories may require renewed emphasis on substitutes despite recent consumer resistance; as far as lower-priced merchandise is concerned, it may lead to even greater "upgrading" of consumer demand, that is preference of higher priced lines. On the whole, availability of goods will be the principal determinant of volume. Earnings in turn may be moderately pared by higher taxes and rising costs which may be difficult to compensate fully by further operating *(Please turn to page 582)*

Position of Leading Merchandise Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	Est. 1943 Net Per Sh.	1936-39 Average Dividends Per Sh.	1943 Dividends Paid	Investment Rating	Market Rating	COMMENT
Allied Stores	15.14	(a)	0.79	2.50	3.50	0.05	0.60	B2	X	An attractive growth situation though nearby sales may recede slightly due to merchandise shortage. Dividend could be raised but conservative policy likely.
American Stores	24.32	12.76	0.71	1.54	1.55	1.00	1.00	C+2	Y	Nearby outlook fairly stable despite some uncertainty concerning mark-ups. Finances strong and dividend should be maintained despite relatively thin coverage.
Arnold Constable	14.93	9.25	0.85	1.00	1.62Ja.	0.75	0.50	B2	Y	Merchandise stocks adequate and over-all volume should be maintained. Decentralization into suburban areas favorable long-range factor. Dividend secure.
Best & Co.	38.88	19.06	3.83	2.72	4.00Ja.	2.65	2.00	B1	X	Sales should remain high though merchandise shortage may eventually be felt. Good growth prospects exist over longer term. Dividend secure, eventually may be raised.
Davega Stores	12.01	10.30	0.52	1.17	1.00Ma.	0.50	0.50	C3	Z	Sales sharply affected by war and no marked improvement expected for duration. Good expense control should prevent further earnings decline. Dividend may continue unchanged.
Federated Dept. Stores	32.36	3.30	2.36	3.56	3.30Jy.	1.50	1.50	B3	Y	High taxes, reduced sales affecting earnings only moderately and no sharp dip anticipated despite possibility growing merchandise shortage. Dividend secure.
First Nat. Stores	31.72	16.37	3.60	2.91	2.62Ma.	2.75	2.50	B3	Y	Narrower margins affecting earnings and volume may also recede somewhat. Strong finances should permit continuance of dividend despite thin coverage.
Gimbel Bros.	28.91	(a)	0.55	2.26	3.00	None	0.45	C+2	X	Excellent 1943 volume probably cannot be duplicated but volume should continue satisfactory. Dividend resumption and improvement of internal organization impart appeal.

Position of Leading Merchandise Stocks (Cont'd)

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	Est. 1943 Net Per Sh.	1936-39 Average Dividends Per Sh.	1943 Dividends Paid	Investment Rating	Market Rating	COMMENT
Grant, W. T.	28.87	15.00	2.86	2.87	2.85Ja.	1.26	1.40	B2	Y	Operations should continue fairly well stabilized aided by improvement in internal organization. Longer term prospects good, dividend secure.
Green, H. L.	19.93	4.71	3.03	3.62	3.50	2.12	2.50	B3	W	Long-term growth prospects good despite possible nearby sales contraction due to merchandise shortage. Strong finances, stable earnings record, secure dividend impart investment quality.
Interstate Dept. Stores	18.41	8.28	1.10	3.27	3.90Ja.	0.81	1.00	C+2	X	Good 1943 earnings should be well maintained as company benefiting from greater spending power of low income groups. Dividend safe. Stock looks cheap relative nearby and longer term prospects.
Jewel Tea	16.35	7.50	5.58	2.03	*1.69	2.79	1.15	B3	Y	Food controls and supply factors may further affect volume but sharp peace time recovery indicated. Dividend considered secure. Post-war growth prospects exist.
Kresge, S. S.	22.23	7.15	1.87	1.45	1.50	1.29	1.20	A3	Y	Earnings sustained through adroit replacement policy but higher taxes may affect 1944 net. Strong finances permit dividend maintenance despite thin coverage.
Kress, S. H.	28.31	6.58	1.98	2.13	2.12	1.20	1.60	B2	Y	Supply difficulties well handled, yet volume may recede somewhat over nearer term. Dividend held safe and good competitive position enhances longer range prospects.
Lerner Stores	24.20	2.27	4.32	3.51	5.12Ja.	2.00	2.00	B2	Y	Demand should continue heavy reflecting increased spending power of women but slight shrinkage possible as adequate replacements more difficult. Strong cash position may prompt dividend increase.
Macy, R. H.	36.32	10.29	2.08	2.14	2.10Jy.	2.19	2.00	A2	Y	Sales prospects continue favorable and replacements fairly adequate. Strong finances suggest maintenance of dividend despite narrow coverage.
Marshall Field	22.20	(a)	0.83	1.68	1.70	0.07	1.00	B2	Y	Sales outlook good and internal reorganization has improved earnings base but nearby volume may be affected by replacement difficulties. Dividend should continue conservative.
May Dept. Stores	41.51	19.92	3.70	3.66	4.10Ja.	3.31	3.00	B2	X	Company benefiting from wartime spending boom and volume should continue well maintained. Efficient operations, strong competitive position enhances longer term outlook. Dividend safe.
McCrory Stores	13.15	0.25	1.87	1.90	*2.00	0.56	1.00	C+2	Y	Growing shortage of soft lines may hold sales below high 1943 levels but net should be relatively well maintained and dividend amply covered.
McLellan Stores	7.68	2.80	1.11	1.43	1.50Ja.	0.69	0.60	C+2	Y	With stores located primarily in rural areas, high rural spending power imparts excellent sales prospects though supply situation may prevent fullest exploitation. Finances sound, dividend secure.
Melville Shoe	7.78	3.12	4.75	2.29	2.00	4.25	2.00	C+3	Y	Rationing affecting sales and over-all decline indicated despite army orders. Margins maintained. Dividend may hold but cannot considered secure. Peace-time outlook favorable.
Montgomery Ward	46.00	38.80	3.86	3.65	3.50	2.38	2.00	A3	X	Favored for certain peace revival especially in durable goods; meanwhile shortages including in soft lines must limit nearby earnings despite heavy volume of demand. Dividend secure.
Murphy, C. G.	36.82	7.09	5.75	5.33	*5.33	3.35	3.00	C+2	Y	With taxes higher and volume possibly lower, 1944 net may recede somewhat though continuing at good level. Company's merchandising policy assures maintenance of outstanding prewar record. Dividend safe.
National Tea	17.72	4.26	d1.13	0.54	0.75	0.23	None	C2	Z	Efficiency greatly improved and competitive position reestablished but progress stalemated by wartime restrictions. Dividend prospects uncertain despite improved financial position.
Newberry, J. J.	49.53	1.24	5.20	6.70	9.00	2.33	2.40	B2	W	Conspicuous 1943 gains in volume and earnings may not be fully maintained in view of supply situation but good results nevertheless indicated. Large earnings, growing liquidity suggest eventually higher dividend.
Penney, J. C.	35.01	26.81	6.44	6.58	6.50	5.50	5.00	B3	W	Continued expansion and wide decentralization promise long term growth but nearby prospects moderately impaired by shortages and narrowing margins. Dividend held secure.
Reliable Stores	21.93	19.64	1.52	0.92	2.00	0.69	1.00	C+2	Y	Heavy spurt in jewelry sales more than offsetting declining furniture volume and dividend should be maintained. Large postwar sales of low-priced house furnishings indicated.
Safeway Stores	42.49	6.06	4.32	4.06	3.62	2.00	3.00	B2	Y	Volume should be fairly well maintained and margins may improve barring unfavorable ceiling adjustments. Competent management and growth factors impart long-range appeal. Dividend should be continued.
Sears Roebuck	54.27	33.75	5.49	5.87	5.50Ja.	4.75	4.25	A3	Y	Supply outlook dominant factor view normally heavy concentration on hard goods but increasing variety partial offset. Margins may narrow but mostly at expense of taxes. Dividend held safe, postwar outlook excellent.
Shattuck, F. G.	17.16	6.60	0.60	0.80	1.37	0.73	1.00	C+2	Y	Benefits from consumer buying power and increasing tendency towards eating out. Candy sales expanding with larger raw materials allotments, indicated well maintained profits.
Spiegel, Inc.	9.66	8.00	1.54	d1.43	d	0.64	None	C+2	X	Heavy expenses in connection with switch from instalment to cash basis delay early establishment of profitable operations but longer term outlook favorable. Finances improving, bank loans liquidated.
Woolworth, F. W.	21.74	5.78	3.19	2.43	*2.26	2.40	1.60	B2	W	Continued heavy demand assures fairly well maintained sales despite sporadic scarcities certain lines. Margins maintained, costs well controlled and net should stabilize around current levels. Postwar outlook promising. Dividend safe.

(a) Not applicable due to prior obligations. d-Deficit. *Actual reported earnings.
Ja-Year ended January. Ma-Year ended March. Jy-Year ended July.

Outlook for Farm Equipments

Further Rise Ahead?

BY EDWIN A. BARNES

THE farm machinery stocks possess greater-than-average leverage, and enjoy wider price swings than the market as a whole. The group moves about twice as fast as the all-industrial stock average, and over a period of years has done much better than the industrial average. In 1932 the farm group stood at 15 compared with 29 for all industrials, whereas now it is at 108 compared with 95.

The farm equipments are popular marketwise inasmuch as the companies are carrying on both peace and war activities. The transition to a peacetime basis will thus present fewer problems to these companies than to the automobile industry or to other branches of the equipment business. There will also be a large foreign demand for farm equipment, probably aided by UNRRA expenditures. It appears generally agreed that instead of feeding the world for an indefinite time, the most practical policy is to help them feed themselves, which will mean rehabilitating their farm equipment.

The farm implement industry was handicapped in 1943 by heavy quota restrictions. In November 1942 production of new equipment was limited to one-fifth of the 1940 level, although production of repair parts was stepped up to 130% of the 1940-41 average output. Later, however, the industry was given an AA-1 priority rating, allotments of steel were increased and manufacture of new equipment was doubled (with repair parts raised to 160% of 1940-41). However, difficulties over special steel requirements (particularly bearings and malleable castings) prevented the industry from taking full advantage of the new order.

Beginning July 1, 1943, production allowables for the coming twelve months were fixed on individual items rather than on an overall basis, ranging from 23% to 150% of the amount produced in 1940 or 1941, whichever was higher. The new order apparently again doubled the total output in terms of 1940, raising it to 80%. It also gave farm equipment a better priority rating—the highest for civilian goods—and greatly facilitated manufacturers' ability to obtain steel and other raw materials. Evidently the government realizes that agriculture was handicapped last year by the numerous arbitrary rules for production and allocation of farm machinery. While there will still be difficulties in 1944, the rules have been considerably improved. Trade opinion is that the industry will be able to meet 90% or more of its quotas for the twelve months ending June 30. Current discussions indicate that next year's quotas may be even larger.

Of course the industry has been "filling in" with armament work in order to maintain production, but profits on such business are smaller than on farm business. While it is unsafe to generalize, earnings probably averaged a little lower last year (the fiscal years of most companies end October 31). Minneapolis-Moline and Oliver Farm Equipment, the first two companies to report for 1943, showed modest gains, but preliminary estimates for Harvester and Deere are below 1942 (Case may do a little better).

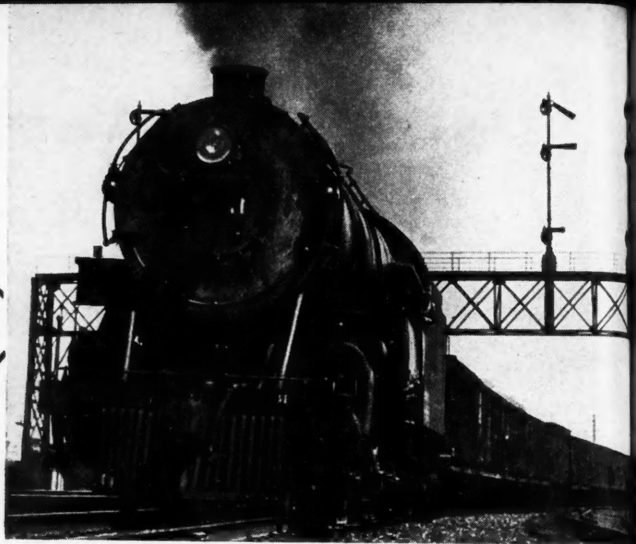
As the industry still has a very substantial volume of war work, the combination of this program with increased production of farm (*Please turn to page* 588)

Position of Leading Farm Equipment Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh. (a)	1942 Net Per Sh. (a)	1943 Net Per Sh. (a)	1936-39 Average Dividends Per Sh.	1943 Dividends Paid	Investment Rating	Market Rating	COMMENT
J. I. Case	$46.00	$29.80	$2.03	$2.34	$2.50E	$0.94	$7.00	C+2	Y	Financial position strong, and recent four-for-one split-up may stabilize price fluctuations. Stock is relatively high compared with past range, but post-war prospects appear good.
Deere & Co.	32.03	22.70	4.48	3.51	3.40E	1.03	2.00	B2	Y	Stock sells at lower price-earnings ratio than Case and Harvester. Company is second largest producer; strong dealer organization in U. S. and Canada. Tractors and tillage lines account for 80% of sales. Finances strong.
International Harvester	77.48	48.20	3.90	4.95	4.25E	2.56	2.50	B2	Y	Largest company in the industry; stock has best investment rating, with 26 years' dividend record. Recovery of foreign business should prove an important earnings factor; company has $50,000,000 invested abroad.
Minneapolis-Moline	6.95	4.03	0.18	1.34	1.42	None	None	C2	Y	Despite very rapid growth of sales, earnings have been highly irregular, and there are $37.63 arrears on the preferred stock. However, there is no funded debt, and current position has improved.
Oliver Farm Equip.	76.72	55.50	3.03	4.87	5.26	None	2.50	C+2	Y	The Company has a small bank loan but no preferred stock. While there were continuous deficits in 1930-35, earnings have gained sharply and dividends were paid in past three years. Working capital greatly improved.

(a)-Year ended October 31. E-Estimated.

New Outlook For



A Pennsylvania Railroad Freighter.

RAIL EQUIPMENTS

BY H. F. TRAVIS

THE rail equipments present a mixed picture marketwise. While Pullman, American Locomotive, Baldwin, and some others are selling near their 1943-4 tops, others such as Poor and American Car & Foundry are well below their highs. The locomotive stocks have doubtless been stimulated by reports of huge military and postwar demands for their regular equipment, permitting immediate transition to a "peace" basis.

The rail equipments, as a class, follow the extremes of the business cycle, since buying of new railroad equipment dries up almost completely during periods like 1931-4 and 1938. Where a fairly generous amount of senior securities have been issued, as with Pressed Steel Car, earnings are apt to fluctuate very widely and the common stock is definitely in the speculative class. On the other hand, those companies which have been able to lease their equipment, to diversify operations, or to accumulate a sizeable backlog of cash and securities, have been able to pay dividends without interruption regardless of business conditions. Stocks of these companies—Pullman, Westinghouse Air Brake, American Brake Shoe, General American Transportation, and Union Tank Car—have thus achieved investment standing.

The industry has, of course, been active in varying degrees in the manufacture of war equipment and munitions, but unlike the automobile industry it has been able to "keep its hand in" with its regular lines, due to the necessity of maintaining transportation efficiency. Because of the fact that equipment had deteriorated in the slack 1930s, and has been used very intensively during the wartime period, there will of course be a substantial backlog of demand in the immediate postwar period. It is estimated that over 40% of our freight cars have passed the age-limit assumed to represent useful life (as indicated by average ICC depreciation rates). Some 49% of locomotives are also obsolete, being over twenty-seven years old, but normally a large part of the obsolete engines are used for duty on short-haul divisions or routes where traffic is light.

The present period of cheap money rates and high railroad earnings should tempt the railroads to buy a substantial amount of new equipment after the war, both for normal traffic demands and to replace obsolete items, but the amount of this demand cannot necessarily be gauged by the amount of obsolete equipment. The extent of the construction program will probably be governed somewhat by industrial activity in the immediate postwar period. However, the government will have large stock piles of metals which it may be willing to sell at bargain prices to rail equipment companies and if part of these cost savings are passed along to the railroads this may tend to stimulate new orders.

At present the locomotive companies appear to have advantage over the car builders, but this condition may prove short-lived. Present military demands for locomotives, together with European reconstruction demands (it is reported that Russia may want ten thousand engines, nearly one-quarter of our entire number in service) may keep the companies busy for a year or two, but it seems doubtful whether normal United States postwar demands for locomotives will be as heavy as for freight cars. Increased profits during the period of high taxes will be less beneficial than in future years.

Most of the near-term domestic demand will probably be for diesels (unless the fuel oil situation remains unfavorable), especially for switching and long-haul use, where the diesel has amply proved its efficiency. To the extent hat postwar buying is concentrated in diesels, the established companies—American, Baldwin and Lima—will have to divide the business with newcomers, such as Electro-Motive Corp. (subsidiary of General Motors).

A fairly substantial number of locomotives has been purchased in recent years—in fact the average for the three years 1941-3 almost equalled the 1929 figure, and considerably exceeded the output for any of the years 1930-40. A large majority of these, however, were dies-

els, so that steam locomotives averaged only about one-third of the corresponding 1929 figure. Since WPB authorizations are necessary before steam locomotives can be built, this tended to limit 1943 business. About 434 steam locomotives were built during the year of which only about 79 represented orders placed during the year. Most of the orders were placed during the first half and due perhaps to the accumulated backlog only 67 steam locomotives were authorized and ordered during the second half.

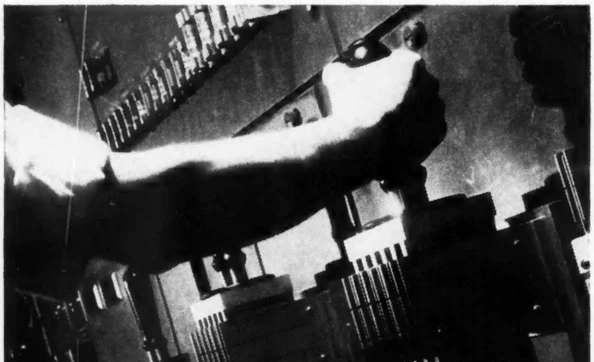
Orders for freight cars reached fairly high levels in 1936 and 1941 but dropped to lower levels in 1942-3. Nearly 40,000 cars were ordered by the railroads in 1943 (Government orders are not revealed) of which 63% were issued to contract car builders and 37% to company shops. The number of cars actually built was somewhat smaller, 32,726, which was only about half the previous year's amount and far below the 1941 figure. The building program for 1944 is forecast at around 50,000 units, plus whatever is needed for military uses. Thus the car builders will be able to make a further switchback to their normal business lines, though not to the same degree as the locomotive builders are doing. It is probable, therefore, that the freight car companies will enter the postwar period with a bigger backlog of potential demand than the locomotive companies—unless the huge Russian order actually materializes. *(Please turn to page 584)*

Position of Leading Railroad Equipment Stocks

	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Average Net Per Sh.	1942 Net Per Sh.	1943 Net Per Sh.	1936-39 Average Dividends Per Sh.	1943 Dividends Paid	Investment Rating	Market Rating	COMMENT
American Brake Shoe	$38.44	$12.10	$2.60	$3.22	$3.88	$2.06	$1.80	B1	Y	Dividends for 42 years; strong financial condition. Business well diversified, rail products only half the total. Due to investment rating, stock sells higher than most others in relation to earnings.
Amer. Car & Fdy.	74.32	(a)	d3.50	5.05	5.10E	0.06	4.00	C+2	X	Second largest builder of freight cars. Earnings highly irregular, following industrial cycles which determine rail car purchases. Common dividends resumed 1943 following litigation with preferred stockholders.
Amer. Locomotive	9.59	(a)	d1.58	3.37	6.00E	None	0.50	C+1	X	Also highly cyclical; preferred arrears cleared up in 1943 recap plan, with small payment on common. Transition from war work back to locomotives may help profits. Russia wants 10,000 locomotives after the war.
Baldwin Locomotive	37.09	8.42	1.05	4.23	5.00E	None	1.50	C+1	X	Earnings erratic but currently large in relation to price. Important investments in Midvale and General Steel Castings (preferred arrears of latter not yet taken care of). Immediate post-war prospects good, long term outlook dubious.
Gener. Amer. Transp.	63.02	(a)	3.53	3.27	4.00E	2.78	2.25	B2	Y	Company's car-leasing business insures steady earnings, explaining 25 years' dividend payments. Financial position sound. Company also important car builder and has entered armament field.
Gener. Rwy. Signal	20.08	10.00	0.31	2.45	2.30E	0.43	1.25	C+2	Y	Company has only one important competitor—they devide the business and interchange patent rights. Earnings have been irregular but sound finances have permitted fairly steady dividends.
Lima Locomotive	58.05	39.70	d0.11	6.47	7.00E	0.63	2.00	C+1	X	Despite some diversification through industrial products, earnings have been erratic. Present big earnings may continue through 1944-45. Stock fluctuates widely, speculative appeal limited at current levels.
N. Y. Airbrake	35.30	12.41	2.18	4.02	3.83	1.44	2.00	B3	Y	No bonds or preferred, but earnings and dividends irregular due to small cash backlog. Good business seems assured for next two years. Stock resonably priced, but long pull appeal limited.
Poor & Co. "B"	11.91	(a)	0.46	1.44	1.00E	None	None	C3	Y	Class B stock has poor record—no dividends since 1930, but arrears on A stock now cleared up. Company does a worldwide business in track supplies, etc. but appears over-capitalized, with cash resources moderate.
Pressed Steel Car	7.81	.91	0.87	2.17	2.50E	0.06	1.00	C1	Y	Third largest freight car builder. Senior securities make earning and price range of common highly fluctuating. Stock offers high yield and low price-earnings ratio; cash position much improved. Conversion of preferreds would dilute common moderately.
Pullman, Inc.	59.90	30.70	1.63	2.88	2.75E	1.66	3.00	A2	X	Hugh cash resources (now $112,000,000) have permitted long dividend record. One subsidiary is biggest car builder in world, other operates nearly all U. S. sleeping cars. Now heavily in war business. May distribute sleeping car stock.
Superheater Co.	17.98	8.88	1.06	1.72	2.10E	1.17	1.20	C+1	Y	Business diversified in rail, utility, industrial and shipbuilding fields, receives license royalties. Earnings fairly steady and dividends protected by income from security holdings.
Symington-Gould	7.40	2.74	0.59	0.60	.50E	0.21	0.50	C2	Y	Earnings, dividends irregular. Business largely heavy rail castings for new equipment, now making tank armor and other war products. Market record unimpressive. Improved cash position and high yield may afford some appeal.
Union Tank Car	34.03	10.30	1.67	2.51	3.00E	1.35	2.25	B1	Y	Largest lessor of tank cars, benefitting by big demand for oil-gasoline. Formerly division of Standard Oil. 30-year dividend record, attractive yield. Restoration of ship competition after war might affect earnings moderately.
Westinghouse Air Brake	16.14	10.20	1.25	1.33	1.42	1.06	1.25	B1	Y	Strong cash position explains 49-year dividens, despite rather erratic earnings. Price-earnings ratio fairly high, yield moderate, due to investment caliber. Good business seems assured for 1944-5.

(A)-None available, because of excess senior capitalization. (d)-Deficit. E-Estimated. ap—Year ended April.

Electrical Equipments In Transition



BY GEORGE L. MERTON

BUSINESS in the making of electrical goods has continued at a high rate and it has promise of holding up well during this year, if the war lasts through it. The armed forces and war plants require large quantities of electrical supplies and a certain amount of them is being turned out at present for civilian use. Many others of these products are not available for civilians, however, nor have been for two years, and therefore a large accumulated demand exists which will mean large orders when hostilities cease.

Among the items for which the largest civilian demand is expected when the war is over are electric refrigerators, vacuum cleaners, radios, toasters, electric irons, washing machines and similar items which have been out of production for civilian use, or on a very small-scale output. There are many other items which this industry makes, such as insulators, switches, small motors, electric fans, etc., which can be expected to be in demand after the war because of either a lack of new supply, or to stock up inventories.

While electric lamps have been available for general use during the war, the supply has not covered some sizes and styles, and this is a department which is always busy with replacements. After the postwar building boom gets under way, also, there will be millions of lights needed for the new homes, public buildings, etc., as well as a lot of wiring, and many other electrical items. A vast amount of electrical goods goes into motor cars, and that industry is looking forward to several years of great activity in the postwar era.

Heavy goods, such as electric hoists, turbines, etc., may be in less demand in peace times than during the war, but, as a whole, the industry can look forward to a long period of activity and profits following the war's end.

General Electric and Westinghouse Electric Manufacturing, the first and second in size in this industry, probably turn out a larger proportion of their total output in heavy goods than most others in this field, yet both of them also have very large production in the items for which the greatest demand is looked for after the war: electric refrigeration, radios, television sets, electronics devices, vacuum cleaners, electric furnaces, electric ranges, household equipments (toasters, mixing utensils, electric irons, and a score of other things). Also both are among the world's largest makers of electric lights. Added to these items will be the millions of tubes needed to replace those in the existing radios throughout the country.

Business booked by General Electric in 1943 was $1,360,643,000, which compares with the 1942 total of $2,003,039,000, but at the beginning of 1944, there was enough business on hand to insure capacity operations through the year in most departments. A very large proportion of this business was in war goods, including shells, a number of detecting and locating devices (in addition to radar), gun mounts and the many ordinary electrical goods which the armed forces use in much the same manner as civilians do. Earnings have not been large, however, and the $1.40 dividend rate has been covered with only a small margin in the past three years. The outlook for 1944 is for little change, but after the war, it is to be expected that General Electric will again be able to approach some of the better years when income was at and above $2.00 a share. On 28,845,927 shares of no par value stock, it takes a lot of money to show that much per share. The stock has a definite investment status, and in bull markets, moves fairly well on the advancing side, but not as fast actually or in proportion as many others in this group.

Westinghouse Electric is not handicapped by such a very large amount of stock, and it has a greater measure of market action for that reason. Its capitalization consists of $20,000,000 in funded debt, 79,774 shares of 7% participating preferred, par $50, and 3,126, 580 shares of $50 par common. On this capitalization, earnings have exceeded $8 a share in some of the better years, while preliminary figures for 1943 indicate near to $7 a share. The common and preferred participate equally after each has received $3.50 a share in any year. The recent rate of $4 is expected to be continued, with some rise in the payment looked for after the war, if earnings come up to expectations. Westinghouse is in practically all lines of the business, including the making of electrically operated locomotives, jointly with the Baldwin Locomotive Works.

Allis-Chalmers Manufacturing Company is really in several industries, of which one of the most important is a wide variety of electrical goods. Another branch on which there are excellent possibilities for larger business after the war is farm machinery. The heavy products of the company may not fare so well as they have been during the war period, but a generally good outlook is held for heavy electric motors and generators. This company has had a good earnings record in recent years. A larger part of its work has been in war goods, and a period of several months may be necessary in some of its many departments in converting the plants to peace time work when the war is over. Since 1936, earnings have averaged about $3.50 a share annually, but the directors

have put a large part of the earnings back into the properties, excepting in 1937 when the dividend was $3.50 a share. Since then, the largest payment in any year was $1.50, with $1 to $1.25 in several. The stock of the company consists of 1,776,092 shares of no par value. It is preceded by $15,000,000 bonds, while some large temporary borrowing has been undertaken in connection with war orders, with indications that it will be paid off as the company receives funds for the goods delivered to the Government.

Chicago Flexible Shaft has had an exceptional earnings record for a number of years. Income was fair, even in the early 1930s, and starting in 1935, the company showed a very good record, with $3.72 that year and above $5 a share in every year since. The best figure was $8.80 a share in 1939. The company's title is derived from the flexible shaft machines used for sheep-shearing and clipping the fur of other animals. It is a business which seems to be active in all kinds of economic cycles. A completely different activity of the company has been developed in recent years, including the making of gas and oil ovens, furnaces, and a wide variety of household electrical items such as irons, toasters, percolators, mixers, etc., and there are many other items made including electric shavers and various types of hardware. The postwar outlook for many of the company's products appears to be bright and the earnings and dividends should hold at a high level. The payments in every year since 1936 have been $4 a share or more, with $6 paid in two years. The capitalization is small, consisting of 179,917 shares of $5 par capital stock, with no bonds or preferred.

Square D Company is another one of this group which makes a large variety of different things, but the majority of them are connected with the electrical business. These range from small fuses to switchboards. A number of controller, switch, signal and other instruments are among the products. Square D had a good income record before the war, but its earnings increased greatly in the past three years as a result of Government orders, reaching $7.73 per share in 1941 and holding close to that figure in the past two years. Dividends have been conservative, with much of the increased income in the war period retained by the company. The company has no funded debt and only a small issue of preferred stock ahead of the 421,360 shares of $1 par value common.

Sylvania Electric Products, Inc., has been in business since 1901, with several changes of name through the years. It has been before the public only during the past few years. The company was originally mostly in the electric lamp business, but has added several other lines in recent years, the most important being in electronics devices and radio tubes. In the 1939-1943 period, the earnings have been fair, averaging about $1.85 a share annually. It is believed that active development of several new items will be started after the war, and peacetime applications are found for some of the equipment now being made for war use. The company has $4,000,000 funded debt, also a V loan to carry its Government contracts. There is only one class of stock, with 854,474 shares of no par value. Dividends of $1.25 a share each have been paid on the stock during the past four years.

Emerson Electric Manufacturing Company was mostly known as a maker of small motors for electric fans and household appliances until the war started. Then, it secured a large volume of government business and its sales increased many fold during the past two years. The postwar outlook for business seems promising, as this company has specialized in *(Please turn to page 583)*

POSITION OF LEADING ELECTRIC EQUIPMENT STOCKS

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-9 Average Net Per Sh.	1942 Net Per Sh.	1943 Net Per Sh.	1936-9 Average Dividends Per Sh.	1943 Dividends Paid	Investment Rating	Market Rating	COMMENT
Allis-Chalmers Mfg.	$41.93	$46.50	$2.73	$4.05	$4.00E	$1.94	$1.25	B2	Y	Postwar demand for farm machinery should supplement good electrical goods business; Expect higher dividend than $1.25 in 1944.
Apex Elec. Mfg.	28.79	20.07	2.06	1.84	2.00E	0.46	1.00	C+2	Y	Large accumulated demand developing for washing machines and vacuum cleaners. $1 dividend indicated this year.
Black & Decker Mfg.	20.77	12.50	2.00	2.97Se	3.22Se	0.81	1.60	C+1	Y	Postwar demand looked for on large scale for electric tools in building and motor trades. Dividend rate should be maintained.
Chicago Flexible Shaft	36.95	25.22	7.23	6.34	6.42	4.53	4.00	B2	W	Steady demand for electric clipping and shearing machines may be expected; other lines promising; $4 rate seems secure.
Cutler-Hammer	14.60	7.49	1.21	2.29	3.00E	0.84	1.25	C+1	Y	Meters, controls and motor starters should continue in active demand. $1.25 payment looked for in 1944.
Electric Storage Battery	40.56	27.29	2.06	3.12	2.75E	2.31	2.00	B3	Y	Postwar motor car boom should result in large demand for batteries. $2 dividend looked for.
Emerson Elec. Mfg.	9.20	7.86	—	1.57Se	2.01Se	—	0.50	C+1	Y	Prewar earnings low but company has had great increase in war period; small motor and special products outlook good; 50c dividend indicated.
General Electric	13.67	6.07	1.53	1.56	1.60E	1.55	1.40	A2	Y	Continued leadership in industry expected; postwar outlook good for all but the heavier products; business for war goods has passed the peak. No change in dividend expected in 1944.
Master Electric	16.41	21.87	2.53	2.95	3.50E	1.47	1.40	B2	Y	Leading maker of motors for household appliances; earnings outlook promising; may increase $1.40 rate.
McGraw Electric	10.12	6.97	2.35	2.11	2.00E	1.37	1.50	B2	Y	Leader in small home appliances, also makes fuses, lamps, etc. Postwar prospects promising; may not pay as much in 1944 as 1943.
Square D Co.	18.72	12.39	2.60	7.12	6.00E	1.68	2.00	B3	Y	Continued large demand indicates for switches, controllers, fuses, insulators, etc. May increase $2 dividend rate.
Sylvania Elec. Prod.	13.25	12.38	—	1.97	1.50E	—	1.25	C+3	Y	Developing electronics, radio tube and lamp sales holds good outlook for higher earnings after the war. $1.25 dividend indicated.
Westinghouse Elec. & Mfg.	84.09	52.82	5.86	5.92	6.97	4.37	4.00	A2	Y	Second largest, but a leader in some lines. Earnings expected to hold at high rate and $4 dividend seems assured.
Weston Elec. Inst.	27.21	26.19	1.86	4.59	5.00E	0.84	2.00	B2	Y	Telephone and motor car trades expected to be heavy buyers of specialized products after the war; earnings outlook good; $2 dividend seems secure.

Se-Year to September 30. E-Estimated.

Projecting Prospects For Office Equipments

BY STANLEY DEVLIN

NOT so long ago, the office equipment industry, due to its preoccupation with important war work, was singled out as a likely laggard in reconversion but today, this outlook holds no longer good. Munitions work is still heavy, accounting for the bulk of output, but recently has entered a declining phase in line with production shifts dictated by changing war requirements. On the other hand, restrictions on normal line output were markedly eased. The specific production quotas under which the industry had been manufacturing regular line equipment were eliminated on December 31, 1943 while at the same time, amendments to existing limitation orders have liberalized output and sales. Under the new arrangements, the industry is permitted to make quota-based sales to civilians, for the most part without WPB authorization, and all restrictions on the disposal of used equipment have been lifted.

In order to meet urgent Government and war plant requirements, typewriter production has been revived on basis of 9% of pre-war output, for a seven-month period through March 1944. Smith Corona and Remington Rand recently resumed operations on this basis. Further extension of production of typewriters and other currently banned office equipment will largely depend on availability of manpower. Should munitions demand contract beyond current indications, larger scale produc tion of office equipment for civilian use might easily fol low. Generally speaking, output of numerous types o office equipment is already close to a normal basis i many cases and the industry is thus fairly well along o the re-conversion road with one exception. Cash regis ter production is still banned which limits early recon version prospects of National Cash Register Co. despit steady expansion of production of accounting machine under liberalized output quotas. With most other com panies, normal line output should henceforth increas in proportion to war work but the latter, for some time will still predominate. The gradual shift back to regu lar production, affording wider profit margins, shoul help earnings and stabilize revenues and dividends dur ing the period of partial reconversion.

Since liberalization of production has thus far no benefited civilian customers, most companies continue t obtain large revenues from rebuilding and servicing o equipment, and from supply sales. Rentals, an im portant factor in industry income, also continue at high levels, adding importantly to current earnings.

Post-war prospects are prom- (*Please turn to page 584*)

Position of Leading Business Equipment Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Average Net Per Sh.	1942 Net Per Sh.	Est. 1943 Net Per Sh.	1936-39 Average Dividend Per Sh.	1943 Dividends	Investment Rating	Market Rating	COMMENT
Addressograph-Multigraph.	13.52	5.53	1.72	2.18Jy	1.50	1.17	1.00	C+2	Y	Major part of sale continues in normal lines and income fro repairs and maintenance work remains sizeble pointing to we maintained pre-tax earnings. Dividend safe. Further secul growth indicated post-war.
Burroughs Adding Mach...	6.76	5.23	1.00	0.90	0.85	0.88	0.60	B2	Y	Normal line output henceforth should average slightly highe while Govt. orders still large. Well maintained earnings antic pated and maintenance of dividend likely.
Internat. Bus. Machines....	52.85	(a)	10.47	8.77	9.00	6.37(b)	6.00(b)	A2	Y	Income from rentals and new production continues substanti and earnings should at least be maintained. Dividend secur Finances sound. Growth possibilities exist.
Nat. Cash Register........	24.07	14.90	1.71	1.93	2.00	1.06	1.25	B2.	X	War output still expanding and backlogs large, same tim liberalized production quotas for normal lines should make fo further earnings growth. Dividend safe, peace prospects good
Remington Rand..........	6.46	5.16	1.35	2.00Mr	1.75	1.66	1.00	C+2	Y	Regular output for Govt. and war plant uses substantial, some tim priorities eased for resumption typewriter production. Over-al volume should continue around peak. Dividend held saf
Royal Typewriter.........	35.09	22.76	6.08	8.23Jy	0.25(e)	2.69	(c)	B1	X	Volume and earnings in uptrend and 15c quarterly on ne stock should be maintained. Capacity operations indicat as war orders centering aircraft engine parts. Peace outlo promising.
Underwood-Elliott-Fisher..	35.92	28.17	4.18	3.04	3.75	2.97	2.50	A1	Y	Munitions output accounts for major part revenues but norm line production increasing and large repair and maintenance bu iness bolstering profits which may rise moderately. Dividend saf
Smith (L. C.) & Corona....	23.41	17.12	2.42	3.57Je	3.75	1.03	2.00	B1	X	War output declining but compensated for by increasing type writer production permitting somewhat better margins. Moderat earnings gain indicated. 50c quarterly should be maintained

(a) Not applicable due to prior obligations. (b) plus 5% in stock.
(c) paid 300% in stock on $1 par shares and $2.50 cash on old no par shares.
(e) on new shares; preceding year's earnings 6c adjusted on new share basis.
Jy-Year ended July. Mr-Year ended March. Je.-Year ended June.

Position of Miscellaneous Companies

Company	Book Value Per Sh.	Net* Quick Assets Per Sh.	1936-39 Average Net Per Sh.	1942 Net Per Sh.	1943 Net Per Sh.	1936-39 Average Dividend Per Sh.	1943 Dividend Paid	Investment Rating	Market Rating	COMMENT
American Can	$53.78	$26.15	$5.86	$4.03	$4.22	$4.50	$3.00	A2	Y	War work has offset lost civilian demand due to shortages. Postwar outlook good. Dividend of $3.00 indicated for 1944.
Amer. Chain & Cable	18.66	13.33	2.13	4.57	5.00E	1.21	2.00	C+1	Y	Civilian shortages of chains and other specialized products and postwar motor car use of them hold promise; expect $2 dividend.
Amer. Hide & Leather	6.07	7.26	D.0.09	1.04Je	0.78Je	—	—	C3	Z	Business is marginal but foreign competition for upper shoe leathers not expected for some time after war ends.
Amer. Home Products	15.10	19.55	4.17	4.88	5.00E	2.56	2.65	A2	Y	A steady demand for drugs, cosmetics, toothpaste, etc., indicated in war and after it; vitamin products added; dividend of $2.40 plus extras expected.
Amer. Safety Razor	14.93	9.14	1.99	2.75	3.00E	1.79	1.00	B1	Y	Demand for blades and shaving supplies at highest levels; postwar outlook favorable; $1 dividend indicated.
Amer. Type Founders	17.26	13.05	0.26	1.42Mr	3.82Mr	—	0.50	C+1	X	Bonds and bank loan retirement puts stock in strong position. Postwar outlook good. Dividend may be increased in 1944.
Archer-Daniels-Midland	57.02	36.17	2.93	5.68Je	7.57Je	1.84	2.00	B1	X	Linseed oil, soybean products and flour business continue active. Dividend of $2 may be increased in view of large income
Artloom	14.57	6.96	D.0.09	1.07	1.10E	—	0.55	C+2	Y	Demand for carpets and rugs expected to be very large after war ends. At least 50c dividend expected in 1944.
Bristol-Myers	15.17	9.56	3.35	4.09	4.02	2.50	1.90	A2	W	Cosmetics, toothpaste and other items in big demand, with earnings and dividend outlook favorable in postwar period.
Brown Shoe	53.20	54.90	2.44	4.75Oc	4.93Oc	2.43	2.00	B1	Y	Rationing of shoes has not hurt earnings due to government orders, and a large accumulated demand exists.
Carrier	4.51	13.47	0.17	1.33Oc	1.73Oc	—	—	C+1	Y	Postwar plans for great expansion in activities both in air conditioning and refrigeration; early dividend possible.
Celanese	18.55	24.16	1.95	4.15	3.00E	1.06	2.00	B3	Y	Great promise from plastics and chemicals as well as the normal rayon fabric and yarn business. $2 dividend indicated.
Champion Paper & Fibre	36.95	25.45	1.37	4.35Ap	3.63Ap	0.90	1.00	B3	Y	Shortages may cause small loss in book paper business but $2 dividend seems secure for this year; postwar outlook is favorable.
Cluett Peabody	21.05	26.60	2.01	3.64	3.03	1.48	2.00	B3	Y	A large business in collars and shirts for returned service men is expected after the war; dividend of $2 indicated.
Collins & Aikman	26.21	19.13	3.31	1.09Fe	2.00Fe	2.42	—	B1	X	War conditions caused a sharp decline but improvement in recent months expected to continue; postwar promising.
Continental Can	38.19	24.93	2.78	2.11	1.81	2.56	1.00	A3	Y	War business offsets shortages of materials for normal trade. After-war outlook good; $1 dividend expected 1944.
Cont'l. Diamond Fibre	14.28	7.31	0.48	1.65	1.50E	0.84	0.85	C+2	Y	Insulation and plastics demand should hold at high rate; 80c or more expected to be paid in 1944.
Crown Cork & Seal	40.30	29.68	2.68	2.74	2.60E	1.75	0.75	B3	Y	Restrictions on bottle caps may cause further small decline in income but postwar outlook very good; $1 dividend expected.
Dresser Manufacturing	28.90	15.62	—	5.13Oc	5.53Oc	—	2.00	B1	Y	Large earnings in past two years in oil pipe line demand; an increase above $2 dividend rate possible, this year.
Electric Boat	16.97	17.31	0.88	3.86	3.50E	0.60	1.25	C+3	Z	Good business in war times may be followed by severe drop not long after war ends; dividend of $1 likely this year.
Endicott Johnson	87.31	78.94	2.68	4.88Nv	4.80Nv	3.00	3.00	B2	W	Government orders for shoes offset civilian rationing; earnings and dividend outlook good for postwar period.
Gaylord Container	16.20	8.88	—	1.82	1.50E	—	1.00	C2	Z	Heavy demand for containers continues. Good postwar demand; $1 dividend indicated.
General Bronze	10.23	5.67	D.0.26	2.78	2.50E	—	0.60	C3	Z	War work aided income but postwar outlook only fair unless the metal powder development proves profitable; expect 60c dividend.
Glidden	25.84	21.64	1.82	1.60Oc	1.88Oc	1.40	0.90	C+2	Y	Food business is good, especially butter substitutes; postwar outlook promising for paints and varnishes; expect $1 dividend.

Position of Miscellaneous Companies—*Continued*

Company	Book Value Per Sh.	Net* Quick Assets Per Sh.	1936-39 Average Net Per Sh.	1942 Net Per Sh.	1943 Net Per Sh.	1936-39 Average Dividend Per Sh.	1943 Dividend Paid	Investment Rating	Market Rating	COMMENT
Gotham Hosiery	$5.92	$6.77	$0.25	$1.64	$1.23	—	$0.50	C3	Y	Hosiery business should improve in postwar era when nylon and silk can be obtained again; 50c dividend expected.
Hat Corp. of Amer.	5.52	8.02	0.98	0.65Oc.	.75E	0.53	0.50	C+2	Y	Men's hats should be in large demand when the men are mustered out of the armed services; dividend of 50c indicated.
A. Hollander & Son	14.88	6.49	0.97	2.54	2.75E	1.19	1.50	C+1	Y	Fur business dyeing promises to continue active and prosperous; $1.50 dividend looked for in 1944.
Interchemical	27.17	31.37	2.31	2.90	3.00E	1.29	1.60	B2	Y	Some temporary curtailment may be expected due to shortages, but earnings and dividends should continue about unchanged.
International Paper	35.02	31.24	—	2.80	2.50E	—	—	C+3	Y	Postwar decline in business expected because of imports from Scandinavian countries; dividend unlikely.
International Salt	42.18	11.46	2.04	2.82	2.75E	1.87	2.50	A2	W	Continued large demand for salt from many industries indicated; $2.50 dividend expected for 1944.
Kimberly-Clark	63.64	22.52	3.06	3.71	3.50E	1.19	1.75	B3	Y	Magazine and specialized papers suffer shortages; postwar outlook good. $1.75 dividend seems secure.
Lambert	9.85	7.28	1.66	2.86	3.00E	1.75	2.00	B1	Y	Drug store specialties and plastics business holds at high level; no dividend change expected. Good cost control. Longer term growth prospects favorable.
Lehn & Fink Products	8.67	7.26	1.42	1.63Je.	3.22Je.	1.34	1.40	B1	Y	Continued large demand for cosmetics, tooth paste, disinfectants indicated; $1.40 dividend indicated. Relaxation of material restrictions lessening operating problems.
Mohawk Carpet	33.66	26.37	1.35	3.03	2.40	1.13	2.00	B3	Y	Large accumulated demand for rugs and carpets developing; postwar outlook good; dividend might be shaded. Stock has long-term speculative appeal.
Novadel-Agene	7.80	6.32	3.12	2.22	2.00E	2.54	2.00	B2	W	Flour bleaching and aging materials should continue to bring large profits, but dividend may be reduced as costs of operation increase.
Omnibus	11.91	0.06	1.27	0.18	1.00E	1.07	0.25	C1	Y	Wartime traffic aids company; some possibility bus lines may be sold to city; small dividend expected.
Pratt & Lambert	32.33	22.37	2.09	2.21	2.00E	1.79	1.80	B3	Y	Postwar demand of large size expected for paints and varnishes, but near term outlook less favorable; some dividend reduction possible.
Savage Arms	13.40	7.29	0.42	3.54	1.52	0.25	1.00	C3	Z	Peace time outlook poor unless new activities are developed; some dividends should continue during war. War-time earnings vulnerable to excess profits taxes.
Simmons Co.	19.97	16.31	2.52	2.71	2.00E	2.06	1.00	B3	Y	Mattress and spring demand after the war expected to be of large proportions; $1 dividend seems secure. Earnings should resume uptrend over longer term.
Sutherland Paper	24.30	8.66	2.46	2.57	2.86	1.47	1.25	B1	Y	No falling off in sales of paper cartons likely during the war and postwar outlook favorable; $1.25 dividend indicated. Good operating outlook gives reasonably priced common fair degree of attraction.
Tennessee Corp.	22.91	5.99	0.60	1.36	1.60E	1.00	1.00	C+1	Y	Increasing business looked for in chemicals and fertilizers; $1 dividend expected in 1944. Favorable price spreads aiding profit margins.
United Drug	11.69	22.31	0.85	2.29	2.50E	0.31	—	C+1	X	Increasing earnings and good prospects for postwar business indicate early dividend payment. Expanding earning power, improved financial position enhances outlook.
United Dyewood	1.26	15.37	0.93	0.20	.10E	0.75	—	C3	Z	Earnings poor since 1937; postwar prospects fair; early dividend payment not likely. Now synthetic dye production hampered by war-time conditions.
United States Foil "B"	6.52	0.03	0.47	0.27	.50E	0.35	0.30	C1	Y	Larger receipts from Reynolds Metals holdings offer possibility for higher dividend in 1944. Common lacks appeal barring marked outlook improvement.

D.-Deficit.
Je-Year to June 30.
Mr-Year to March 31.
Oc-Year to October 31.
Nv-Year to November 30.
Ap-Year to April 25.
Fe-Year to February 28.
E-Estimated.

For Profit and Income

Steel After the War

The consumption of steel has always varied in accordance with the cyclical ups and downs of the country's total economic activity. Under peace time conditions, therefore, a graph of steel production would closely conform to the pattern shown by a graph of the Federal Reserve Board index of industrial production. There is no reason to suppose this relationsship will change in the future, though it is now greatly distorted. On the basis of past relationship, a well known research organization calculates that steel volume after the war would be around 67 million tons a year if the Reserve Board index is 25 per cent higher than the 1935-1939 average. This would be more than in any past peace year. Should the Reserve Board index be 50 per cent above the 1935-1939 average, steel volume — according to this projection — would be around 86 million tons a year or about equal to 1943 output. Under peace conditions, selling price and costs probably could be brought into more profitable allignment than now prevails. The conclusion seems pretty obvious to this column: If we have a high level of economic activity after this war, present pessimism on "heavy" steel shares will prove to have been unfounded. If we *don't* have a high level of economic activity after the war, present optimism on consumer goods stocks will prove to have been unfounded.

Speaking of Steels

Acme Steel Company, a maker of "light" steel products, is interesting in several respects. In the first place, it is among the stocks which have persistently resisted market reactions since last July. Present price of $55\frac{1}{4}$ compares with 1943 high of $57\frac{1}{8}$ and low of $41\frac{1}{4}$. In the second place, long term earnings and dividend record has been remarkable for a steel enterprise. There were at least small net earnings even in the bleak year 1932, when $1.20 dividend was paid; and lowest dividend was $1 in 1933. In the peace-time up cycle 1935-1937, net averaged $5.54 a share; and over the seven-year period 1933-1939, the average net per share was $4.38. Top pre-war dividends were $4.25 in 1936 and $4 in 1937. Present indicated rate is $3.50, which yields nearly 6.4 per cent. If we cited the record without the name, you would scarcely imagine this to be a steel company.

Stocks Currently Showing Greater-than-Average Strength

Braniff Airw.	Household Fin.
Bower Roll. Bear.	Kroger Gro.
Col. Broadcasting	W. Indies Sug.
Del. & Hudson	Pfeiffer Brew.
Firestone	Peoria & East.
South. Pac.	Pac. Gas & El.
N. Y. Central	Atlas Tack
South. R'wy.	Thatcher Mfg.
Brewing Corp.	Atchison
Dixie Cup	Atl. Coast Line
Thompson Pro.	Food Mach.

Western Union

This company recently retired all of the $12,563,000 owed to the Reconstruction Finance Corporation by Postal Telegraph at the time the two companies were merged. But the stock is still decisively under previous highs. The company's post-war potentials are far from clear. Much will depend on development or adoption of new techniques and devices in communication—and on competitive forms of communication.

Goodyear Tire

Goodyear is making a lot more things for the armed forces than rubber products. So much so that its sale volume last year showed the exceptional gain of 68 per cent. As a result net income per share spurted to $8.94 against $5.46 in 1942. However, it is open to question whether the conservative $2 dividend will be increased. Working capital needs are very large. Moreover, the 1942 reported net was after contract renegotiation; whereas $8.94 figure for last year was before completion of pending renegotiation. The ultimate adjusted figure for 1943 may prove materially lower than reported.

Collins & Aikman

This company, maker of upholstery fabrics formerly used cheifly in automobiles, was a "casualty" of the war but, as we have pointed out before, has decidedly above-average speculative potentials for post-war recovery. The worst of the war period adjustment has now been put behind, in reflection of which fact the company has recently declared a 25-cent dividend, the first in two years; and has decided to retire, by lot, 10 per cent of the outstanding issue of 39,750 shares of $5 preferred stock. We first recommended this stock months ago when it was considerably under present price of $26\frac{3}{4}$, which compares with recovery high of 29. In good automobile years before the war earnings ranged as high as $6 to $8 a share, and the stock sold as high as $66\frac{3}{4}$. For owners willing to be patient, we would say hold on; for would-be new buyers, we would say the stock is unlikely to "run away" any time soon and might quite possibly be bought somewhat lower in reactions.

Companies Reporting Increased Earnings

Caterpill. Trac. (a)	$4.41	$3.76
Dayton Rubber (b)	2.99	2.42
Goodyear	8.94	5.46
Un. Airc. Prod. (c)	3.39	2.70
Iron Fireman	2.50	1.36
Owens-Illinois	3.56	3.46
West. Air Brake	1.42	1.33
Bayuk Cig.	3.35	3.20
Louis. & Nash.	18.13	16.59
Acme Steel	6.09	5.21
Am. Brake Shoe	3.38	3.22
Am. Can	4.22	4.03
Am. Tel. & Tel.	9.50	8.79
Kan. City South.	3.94	3.33
Mullins Mfg.	1.00	0.63
Noblitt-Sparks	7.50	3.47
Uni. Carbon	5.15	4.47
Am. News	5.14	3.62
Nor. Pacific	10.29	6.57
Reliable Stores	2.47	1.61

(a) 12 mos. Jan. 31, 1944. (b) Year to Oct. 31. (c) Year to Nov. 30.

For What It's Worth

A recent poll of brokerage house market analysts showed the majority looking for rally in the industrial average to 142-145 before the end of March, followed by reaction during the second quarter. The majority also guess that the war in Europe will end in September or October. All we have to say is that, while political polls are pretty accurate in forecasting elections, market opinion polls have never been too good in foreseeing what the market would do.

Aircraft Earnings

On the day before it published its 1943 earnings, Consolidated Vultee Aircraft saw its common stock close on the New York Stock Exchange at 13⅜. The year's net income per share was $13.75. Dubious as people are about the post-war potentials in aircraft, the market apparently considered it just too ridiculous for the stock to sell at less than one times earnings. So it went up promptly to 14¾. That's more like it — at least 1.05 times earnings. Thoughts that peace may not be so near are helping all aircrafts marketwise. But one swallow doesn't make a summer. These stocks are still under a formidable cloud of investment distrust. Everybody would like to know whether they will break previous lows when Germany surrenders. So would we; but only the event will tell.

Rise in Rails

The main reason for the belated rise in railroad stocks has long been obvious. It is not the rise in earnings per se. Quite a few other stocks have excellent war-time earnings. Primarily it is growing attention to the fact that the *lasting* benefits of high war-time rail earnings are relatively much greater than in the case of the great majority of industrial enterprises. The large reduction in rail debt and the big gain in holdings of cash foot up to a truly major change for the better in railroad credit status. As a result, on any given volume of traffic after the war, rail equity earnings will be larger than on comparable pre-war levels of traffic. Given a prosperity level for general business activity, average rail earnings would be considerably larger than in any peace years since the '20's, though not as large as now. Some analysts emphasize that many rails sold twice as high in 1936-1937 as they do now, on earnings only a small fraction of what they are today. The point is statistically accurate but not necessarily acceptable as a bullish argument. At the 1936-1937 bull market highs, rails were extremely and untenably high on the earnings then existing or reasonably in prospect. This column is fairly bullish on longer-term rail prospects, but has its doubts that their present market performance is lasting. Unless the industrials can get going, the rail move probably will peter out before long. On the other hand, the present troublesome technical divergency may quite possibly remain with us when the market has its general sell-off that most analysts — including this column's writer — are expecting at some time in the not distant future. That is, the industrial average may break the November low, with the rails failing to do so. Even so, such a reaction would make the rails available at more opportune levels than now prevail.

United States Gypsum

Here is another example of how the "tax cushions" work to sustain corporate earnings in the face of decline in pre-tax profits. Earnings before taxes for 1943 were $10,154,000, gainst $12,875,000 the year before; but tax liability fell from $7,223,000 to $5,652,000 with the result that net income shrunk only moderately from $5,652,000 to $5,038,000. The company's balance sheet shows that it is "well heeled", indeed, for such opportunities as will develop after the war. Cash and marketable securities at the year-end footed up to $30,725,000, compared with total current liabilities of $9,868,000. Net working capital of $35,032,000 represents a build-up of nearly $16,000,000 since 1938. You will find a similarly striking balance sheet position if you examine Montgomery Ward. Sewell Avery is the top executive of both companies. Evidently Mr. Avery likes that kind of a balance sheet.

New Business

In an age in which electronic telephony can be maintained between airplanes and ground terminals — or between airplanes and airplanes — present ancient communicating and signalling methods used in operation of railroad trains are plainly outmoded, and collisions (of which there have been too many in the war years) are inexcusable. The business of a brakeman running back along the track to wave a flag or set a flare belongs to Grandpop's day. In future, the conductor or engineer of a stalled or wrecked train will just telephone to the train coming on behind to look, listen and stop. On a 67-mile stretch of its lines the Pennsylvania Railroad has just installed a talkie system for communication between train and train, between train and "headquarters" and between front and rear of a train. This is an experminental venture that almost surely will take hold on all rail systems. It will mean some business for the radio-electronic equipment makers.

Companies Reporting Lower Earnings

Alleg. Lud. Steel	$2.91	$3.13
Arundel Corp.	1.73	2.67
Com. Solvents	1.10	1.16
Repub. Steel	1.77	2.67
Nat. Biscuit	1.10	1.19
Van Norman	3.25	3.49
Gen. Cigar	2.00	2.36
Penn. R. R.	6.49	7.70
Atl. Coast Line	21.22	27.46
Atchison	21.11	27.79
Flintkote	1.51	1.88
N. Y. Air Brake	3.83	4.02
Reading	6.44	8.92
Hazeltine	3.93	4.45
Helme	4.00	4.12
Com. In. Trust	2.94	3.96
Mohawk Carpet	2.40	3.03
Gotham Hosiery	1.23	1.71
Union Bag & Pap.	0.83	1.50

HOW NEW TAX BILL WILL AFFECT INVESTORS

BY WARD GATES

IN contrast with the dramatic events which accom-anied the enactment of the 1944 tax bill, its provisions y and large change relatively little in the current pattern f corporate taxes though earnings of quite a number of mpanies will be affected in varying degree. This is illus-ated in the accompanying table listing prospective in-oads on earnings due to higher EPT rates, the principal ature of the bill's impact on corporate business.

The new bill is expected to raise some $2.31 billions dditional revenues. Thereof, $502 million will come om corporations, some $665 millions from individuals, bout $1 billion is to be derived from higher excise tax ates while some $97 million will be obtained from postal te increases. The new excise rates (see table) hold rela-ively little terror for the industries affected despite the rastic boosting indulged in by Congress. They will be assed on to the customer which, it is felt, can be done ithout deleterious effect on business volume in view of urrent high war-time incomes.

In the corporate field, it is mainly certain technical hanges which are of principal importance; otherwise rovisions of the existing tax law remain the same. Nor-al corporate tax rates and surtaxes remain unchanged ut EPT rates are boosted from 90% to 95%; however, he over-all tax ceiling of 80% is retained. On the other and, corporations are allowed $10,000 instead of $5,000 n earnings before EPT applies. Additionally, some reduc-ions were made in the EPT credit of companies using he invested capital base. Credit on the first $5 million of capital invested remains at 8%, but will be 6% instead of presently 7% on capital from $5 million to $10 million and 5% instead of 6% on capitalization exceeding $10 million.

These provisions form the principal basis for higher corporate taxes payable on 1944 earnings. For companies having large invested capital, the credit reductions would transfer a considerable amount of earnings from normal taxes to EPT, subjecting them to a 95% instead of a 40% rate. However, the 80% ceiling on total tax liability provides an effective cushion so that in the majority of cases, additional taxes payable under the new bill should hardly cut too painfully into future earnings. Also, rising EPT liability automatically leads to an increase in post-war credits which remain unchanged at 10%.

OLD AND NEW EXCISE TAX RATES

	Old Rate	New Rate
Distilled spirits (per gallon)	$6.00	$9.00
Beer (per barrel)	7.00	8.00
Wine (per gallon) 14%-21% alcohol	.40	.60
Night clubs	5%	30%
Club dues	11%	20%
Jewelry	10%	20%
Furs	10%	20%
Toilet preparations	10%	20%
Transportation	10%	15%
Telephone calls (local)	10%	15%
Telephone calls (long distance)	20%	25%
Telegraph	15%	25%
Electric light bulbs	5%	20%
Luggage	10%	20%

EFFECT OF HIGHER EPT TAXES ON EARNINGS OF SELECTED COMPANIES

	Tax increase per common share	1942 net per share
. S. Steel	$0.52	$5.35
ones & Laughlin	.60	4.42
Wheeling Steel	.30	4.61
Stand. Oil N. J.	.01	3.06
Texas Co.	.01	3.22
Shell Union Oil	.03	1.28
Stand. Oil Indiana	.03	2.89
Stand. Oil Ohio	.60	6.68
National Dairy	.06	1.95
Corn Products Refg.	.26	2.74
Westinghouse Electric	.64	5.41
General Foods	.09	2.50
Melville Shoe	.18	2.39
Canada Dry	.17	2.34
Owens-Illinois	.26	3.46
Pullman	.30	2.88
Internat. Harvester	.18	4.95
Underwood, Elliot Fisher	.17	3.04
Internat. Business Machines	.66	8.77
Radio Corp.	.05	0.42
Phelps Dodge	.15	2.77
Kennecott	.12	4.51
Am. Tel. & Tel.	.23	8.57
General Motors	.03	3.55
Internat. Paper	.47	1.74
St. Joseph Lead	.10	2.89
Vanadium Corp.	.09	1.33
U. S. Rubber	.11	1.82

In addition, the new bill includes a number of amendments of considerable importance to selected industries or companies; some of these were severely criticized in the President's veto message as constituting "special privileges." They include provisions allowing corporations going through reorganization or bankruptcy proceedings to keep their old capital base for tax purposes. Under this ruling, thousands of corporations forced into bankruptcy during the depression will attain a new and more favorable tax basis with potential aggregate tax savings estimated officially at some $150 millions in 1944 alone. This section, however, does not apply to railroads which already are covered by somewhat similar provisions in the existing law.

Another section of the bill limits tax deductions which an individual may take because of a business that loses money regularly. It provides that if a business loses money for five consecutive years, the deductions for tax purposes because of these losses shall henceforth be limited to $50,000 annually.

Special tax benefits are provided for certain natural resources industries. The lumber industry is permitted to treat income from timber cutting as a capital gain (taxable at lower rates) rather than annual income, provided the timber is cut by the owner and sold as lumber. A part of the output of new coal and iron mines, as well as timber tracts, is excluded *(Please turn to page 585)*

Investment Audit

of the Paper Industry

BY RICHARD COLSTON

As in every other field, the war has had a dynamic impact on the paper industry. But the net results can not be neatly and simply summed up as "favorable" or "unfavorable." Rather, the picture is "mixed." And the war-time trend of earnings has been unusual in that most companies had abnormally high profits in 1940 and 1941 but experienced a decline in 1942 and a further and sharper shrinkage in 1943.

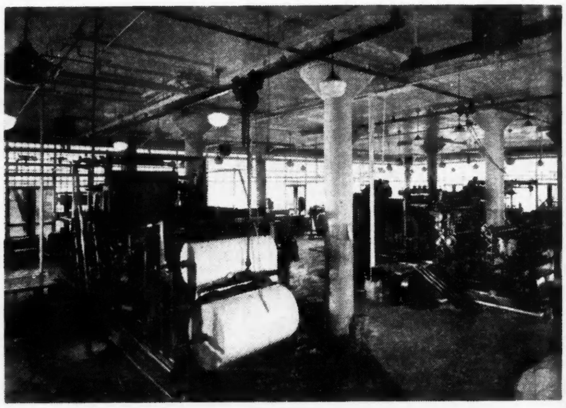
There are, of course, exceptions. For a few manufacturers of paper or paper products the best earnings of the war period were either no higher or not importantly higher than profits in the most active pre-war years. A still smaller number, so far as can be judged by interim statements, appear to be exceptions to the general rule of rather sharp decline in 1943 earnings.

We shall have more to say below about variations in company experience and prospects, since—even more than in most fields—the wisdom or unwisdom of investment or speculative participation depends far more upon choice of companies than upon industry-wide conditions or potentials.

Paper is a big industry which before the war had grown to an annual output in excess of 16,500,000 tons with a dollar gross exceeding $2,000,000,000. In relation to the size and importance of the industry, and to the considerable number of listed corporations engaged in it, stock market interest in paper shares—on an average—is rather low. True, there is from time to time a flare-up of speculative interest in the group, or in some stocks within it, but rarely will a paper stock be found among the 10 or 15 most active issues.

The longer-term pattern of The Magazine of Wall Street's group index of paper shares has shown rather pronounced divergences from the performance of the broad market average. The group's slump from the 1937 high to the 1938 low—26.5 down to 5.8—was much greater than average. In 1940, discounting the sharp revival in paper company earnings and the end of imports of Scandinavian pulp and paper at least for the duration of the war, this index recovered to a high of 19.4 or a rise of nearly 235 per cent from the 1938 low. In other words, its intermediate recovery of 1939-1940 was much stronger than that of the market. In the bear market culminating in the spring of 1942 the paper group again diverged in that, while the broad average broke its 1938 low, the paper group index did not. Indeed, the 1942 low of 8.5 was about 46 per cent higher than its 1938 low.

However, with profits of most paper companies having begun to flatten out or decline in 1941-1942, the paper group was a conspicuous laggard in the great 1942-1943 market rise. Its best market level reached in 1942 was



20 per cent under its 1941 high and 41 per cent under its 1940 high. But beginning in December and continuing to date—perhaps partly due to lifting of tax-sale pressure, partly due to an increased tendency of buyers to shop for values among issues relatively most depressed, the paper stocks, along with other previous laggards, have given a conspicuously improved performance.

At the recovery top for the market last July, the paper group was about 45 per cent higher than at the close of 1942, the general average 65 per cent higher; but the year-end, on the same basis of comparison, found the paper group 50 per cent higher, the general average 43 per cent higher. In short, during the broad period of market readjustment in the second half of last year, the paper stocks improved their relative position. However, the present price position is still a depressed one, equivalent to about 50 per cent of the 1937 high whereas the general average stands at about 66 per cent of its 1937 high.

Peace will bring both advantages and disadvantages for the paper industry. The advantages include (1) eventually lower taxes; (2) more effective control of operating costs, especially unit labor costs; (3) the end of shortages and of Government restrictions on the consumption of paper; (4) the possibility of higher unit profit margins on normal civilian business than are presently being made on the large volume of paper going into war uses; and (5) promising growth of volume in by-products, combinations of pulp with plastics for many uses, and non-paper items.

The most important disadvantages to be encountered with peace-time conditions are (1) the fact that producing capacity is normally enough in excess of consuming demand to make for a decidedly competitive price

ituation; and (2) the probability that low-cost Scandi-avian pulp will return to competition in this market. n 1939 a bit more than 15 per cent of the pulp tonnage onsumed in the United States was imported from Nor-ay, Sweden and Finland. Though the percentage ap-ears small, the effect on prices is potent.

Weighing these pros and cons, the writer concludes, on alance, that the longer-term potentials in paper indus-ry stocks as a group can hardly be better than average; nd that, taking the recent substantial percentage ad-ances into account, *intermediate* market potentials do ot appear sufficiently attractive to invite purchases for ppreciation.

Varying Company Prospects

Securities of the individual companies vary widely in erit, and in investment or speculative attraction at urrent prices. For instance, well-situated and non-in-egrated makers of specialty paper products appear to ave better post-war potentials than most primary paper roducers. They are not hurt by price competition mong primary suppliers and may, indeed, profit by it—hus occupying a more flexible and strategic position.

An interesting example is Lily-Tulip Corporation. For the twelve months ended last June 30 earnings were 4.19 a share. For the period 1939-1942, calendar year arnings were unusually stable at a good level, ranging etween high of $3.80 and low of $3.14. Longer-term erformance has been much above average in sales and rofits. Prior to 1939, best pre-war results were $2.17 a hare in 1936; and in the company's poorest years—1934 nd 1938—quite respectable profits were earned: respec-ively, $1.39 and $1.18. Capitalization is small, financial osition comfortable. Dividend of $1.50 paid last year s conservative in ratio to earning power, should be qualled this year, and offers yield of about 5.5 per cent on current price.

There are many other makers of containers and spe ialties. Dixie Cup has a good earnings record and stable war-time earnings have kept fairly well in line with those of best pre-war years. Profits for 1936-1937 were, respectively, $2.11 and $2.48 per share; and for the war period 1939-1942 were: $2.02; $1.84; $2.40; and $2.37—with $2.23 shown for 12 months ended last June 30. However, there is a substantial preferred capitalization and dividend on the common, now priced at 15½, is only 50 cents. In contrast to this stock, it may be noted that Lily-Tulip is one of the few equities in any industry which in both 1942 and 1943 made market highs above the best of 1937.

Container Corporation is among the better grade, but nevertheless speculative, equities in paper. Except in deep depression years, substantial and fairly consistent earning power has been shown. There is nothing ahead of the common. Peak pre-war net was $2.28 a share in 1936. Profits in the war period ranged from low of $1.85 in 1939 to high of $3.07 in 1942. Reflecting higher costs and supply difficulties, figure of $1.74 for the 9 months ended last Sept. 30 suggests a substantial decline in 1943 net from the high 1942 level. Dividend was $1.50 in 1943, same as in the preceding three years. Assuming continuance of this rate, yield at current price around 22 is 6.8 per cent.

Sutherland Paper

Sutherland Paper is the largest maker of paraffined cartons and containers, the bulk of output going to the food trades, which has made for stability of sales and profits. Earnings for 1939-1942 ranged between $2.52 and $2.85 a share. Under active pre-war conditions, as in 1936-1937, net was, respectively, $2.54 and $2.80; and in the depression year 1938 did not fall below $2.04. For six months to June 30 net was $1.29, suggesting 1943 results fairly close to 1942. Company paid $1.25 in 1943 dividends, same as in the two preceding years. Dividends in the pre-war period 1936-1939 ranged from $1.80 to $1.30. Although this is one of the best of the paper stocks, the yield is only 4 per cent and current price of 31, comparing with 1937 high of 39⅞, appears to offer a quite limited appreciation (*Please turn to page* 588)

POSITION OF PAPER SHARES

	Earnings Per Share						Price Range		
	1939	1940	1941	1942	Latest Report	Div. Paid In 1943	1937—1942	1943	Recent Price
Champion Paper & Fibre	(a)Def.	(a)$2.25	(a)$3.36	(a)$4.71	(b)$ .75	$1.00	63¼-14⅜	25¾-18	24½
Container Corp.	$1.85	2.85	2.98	3.07	(c) 1.74	1.50	37⅜- 9⅛	23¾-16	21
Crown Zellerbach	(a) 1.05	(a) 2.42	(a) 2.75	(a) 2.86	(d) 1.08	1.00	25¼- 7½	17 -11½	16½
Dixie Cup	2.02	1.84	2.40	2.37	(e) 2.23	.50	25 - 7	16¼-10	17
Gair (Robert) Co.	Def.	Def.	.80	.43	(c) .43	.30	15⅜- 1½	4⅛- 1⅝	3
Gaylord Containers	.71	2.04	1.98	1.55	(c) 1.06	1.00(f)	19½- 8	14¾- 9¾	13½
Great Northern Paper	2.73	2.87	2.41	1.69	(c) 1.20	1.60	49¾-24½	36 -27¼	32
Hinde & Dauch	1.90	2.21	2.59	2.29	(c) 1.80	1.50	37 -12½	21⅜-14½	20
International Paper	(g) .14	6.07	6.37	1.75	(c) 1.73	—	(h) 20 - 7¾	14⅜- 8¼	14
Kimberly-Clark	4.21	3.44	4.72	3.25	(i) 3.62	1.75	46¾-17¾	34 -25	32½
Lily-Tulip Corp.	3.60	3.39	3.80	3.14	(e) 4.19	1.50	23¾-14⅝	28¾-22⅞	27
Mead Corp.	.46	1.56	2.66	1.32	(j) .38	.60	34¾- 5	10¾- 6	8⅞
Rayonier, Inc.	(a)Def.	(a) 1.18	(a) 2.86	(a) 2.60	(d) .28	.87½	29⅞- 6⅝	15½-11¼	13⅞
St. Regis Paper	.06	.43	.71	.33	(N.I.)	—	11¾- 1¼	5 - 1½	5¼
Scott Paper	2.66	2.46	2.52	2.24	(c) 1.49	1.80	52⅛-25½	43 -36¼	40
Sutherland Paper	4.52	2.84	2.85	2.57	(m) 2.86	1.25	39⅞-16⅛	33 -26¼	31
Union Bag & Paper	.76	1.68	1.70	1.50	(c) .53	.30	22¾- 6	11¾- 8	9⅝
United Paperboard	Def.	Def.	Def.	1.33	(N.I.)	—	16⅛- 2½	5⅞- 3⅛	4⅝
West Va. Pulp & Paper	(k) .18	(k) 3.03	(k) 3.70	(k) 1.83	(k) 1.86	1.25	40 - 9⅛	17½-11¾	18½

(a) Years ended April 30 (b) 12 weeks to Nov. 7 (c) 9 mos to Sept. 30
(d) 6 mos. to Oct. 31 (e) 12 mos. to June 30 (f) 1938-1942 Range
(h) 1941-1942 range (i) 12 mos. Sept. 30 (j) 24 weeks to June 12
(k) 12 mos. Oct. 31 (N.I.) No interim statements (l) 6 mos. June 30
(g) Old Company; present company was recapitalized in 1941
(m) Year ended Dec. 31.

Answers to Inquiries

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1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
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International Shoe vs. Melville vs. Reynolds Metals Preferred

As one of your subscribers, I shall appreciate your opinion as to the relative merits of International Shoe and Melville Shoe. Further from the investment standpoint, would Reynolds Metals 5½% preferred be a better buy?—M. C. P., Philadelphia, Pa.

While we rate both International Shoe Company and Melville Shoe Company as above average, from an investment viewpoint we would give preference to Reynolds Metals 5½% preferred stock. International Shoe Company has paid dividends continuously for thirty years and Melville Shoe Company for twenty-six years. You will see from this that both companies have an excellent dividend record.

As regards Reynolds Metals 5½% preferred stock, the company has paid dividends regularly on same since its issuance in 1935 and the following appended earnings figures show that dividend requirements have been well covered: Earnings per share of $5.50 preferred stock in 1942, $27.47; 1941 $57.35; 1940 $48.57. In the first nine months of 1943, company showed a large increase in earnings amounting to $58.54 on the preferred stock as compared with $17.77 for the same period of 1942. The latest available balance sheet showed net assets per share of preferred stock of $461.00 per share. The preferred stock is traded in on the New York Stock Exchange and the price range in 1943 was: high 93¾; low 80; last 87. Based on the current market price of 87, the indicated income yield is 6.3%. The preferred stock sold as high as 117 in 1936 and the low in the last nine years was 75⅛. It is redeemable at $107.50 per share.

United Corporation Preferred Exchange

The writer has had United Corporation preferred stock ever since it was organized. I understand we are to have an option of receiving various stocks in liquidation or retaining our stock as is. Should you have any suggestions regarding this situation it would be appreciated. —H. L. H., New York, N. Y.

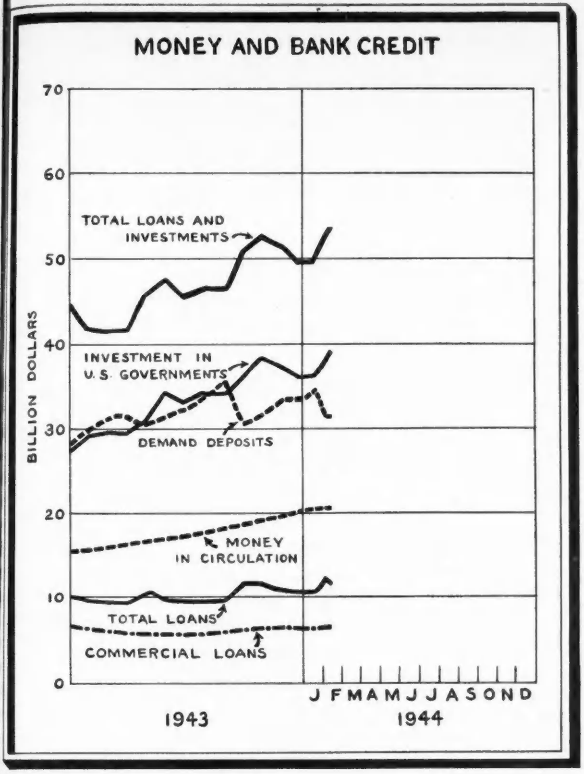
In response to your letter, would advise that on January 27th, the United Corporation filed a proposal with the SEC as an initial step in voluntary readjustment whereby it proposed to give $3.75 in cash, 1½ shares of Philadelphia Electric and ¼ share of Delaware Power & Light common in exchange for each share of United Corporation preferred. This offer would be available to 1,244,356 shares of United Corporation preferred for ten days and could be extended for an additional eighty days, if a total of 1,244,356 shares were not tendered. It was further indicated that if more than the above number of shares were tendered then a pro-rata distribution would be made according to the number of shares tendered. On the basis of the current market prices, Philadelphia Electric and Delaware Light & Power plus the cash, are worth about $38.50 per share of United preferred, if not more than 1,244,356 shares were tendered, compared with a market price of 34⅝. It is a requirement of the SEC that United Corporation eventually recapitalize into one class of stock and as preferred shares are retired through distribution of assets it may tend to create further capital appreciation for the remaining preferred shares.

Associated Dry Goods First Preferred

Do you consider Associated Dry Goods first preferred stock a fairly safe investment from a "business man's" standpoint and do you advise its purchase at current price?—L. L. C., Owosso, Michigan.

Associated Dry Goods operates eight large, long established department stores, some of which also operate branch stores serving nearby suburban areas. The Lord & Taylor and McCreery Stores are both outstanding department stores in the New York City area. The company's $6 cumulative first preferred stock has preference as to cumulative dividends and to assets over the 2nd preferred and common stock. It is not callable. In two years since 193[illegible] company failed to earn its full dividend requirements; in other years the dividends have been more than earned. Earnings on the first preferred from 1941 to 1943, inclusive were: $17.21, $19.52 and $16.51. Fiscal year ends January 31st. For the six months ending July 31st, 194[illegible] company showed $9.68 on the first

(*Please turn to page* 588)



CONCLUSIONS

MONEY AND CREDIT — Treasury halts expansion in demand deposits by building up working balance. In past 12 months demand deposits at reporting member banks gained only $0.9 billion, despite rise of $12.5 billion in bank credit. Further major rise of deposits is unlikely.

TRADE—Retail store sales last year reached $63.3 billion—topping 1942 by 10% in value, but only 1.4% in volume. Department Store sales this year to Feb. 12 about level with last year in value.

INDUSTRY—Value of goods and services produced last year for war purposes topped 1940 by $80 billion, without reduction in total value of consumer goods and services supplied.

COMMODITIES — Index of spot prices gains fractionally; but rise in grains halted by better crop prospects and Government's deal with Cuba to supply molasses for our alcohol needs.

The Business Analyst

Beginning with the current issue, we are broadening the coverage of our weekly **business activity index** by adding a ninth component—Crude Runs to Stills, reflecting current demand for Petroleum and its products. Thus the index will have ten components when Automobile Production is eventually resumed. Additions are always made in such manner as not to break the continuity of the Index. Per capita business activity receded fractionally during the past fortnight.

* * *

At present writing, it looks as though the **Fourth War Loan** drive will top its $14 billion quota by nearly $3 billion before the books close on March 2. Thus nearly $39 billion will have been raised within six months in addition to more than $20 billion in receipts from taxes and other sources. The total, $60 billion, is at an annual rate of $120 billion—20% more than the Government's expenditures.

* * *

Though about half of subscriptions to the Fourth Loan was facilitated by **expansion of bank credit,** a major portion of private debt thus incurred will be paid off before the next loan drive, if experience following the Third Loan may be taken as a guide.

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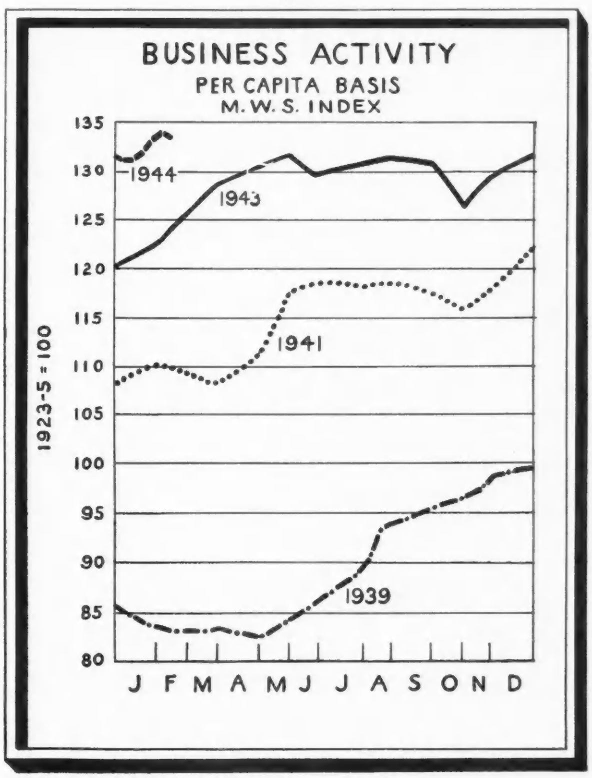


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Feb. 16	1.82	2.07	1.54	0.43
Cumulative from Mid-1940	Feb. 16	165.3	163.5	77.9	14.3
FEDERAL GROSS DEBT—$b	Feb. 16	181.3	178.2	112.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Feb. 16	31.5	31.7	30.6	24.3
Currency in Circulation	Feb. 16	20.6	20.6	15.8	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Feb. 16	5.54	5.48	4.50	3.92
100 Other Cities—$b	Feb. 16	7.65	7.62	6.48	5.57
INCOME PAYMENTS—$b (cd)	Dec.	13.46	12.44	11.61	8.11
Salaries & Wages (cd)	Dec.	9.04	8.90	7.75	5.56
Interest & Dividends (cd)	Dec.	1.56	0.53	1.42	0.55
Farm Marketing Income (ag)	Dec.	1.70	2.01	1.50	1.21
Includ'g Govt. Payments (ag)	Dec.	1.75	2.04	1.57	1.28
CIVILIAN EMPLOYMENT (cb) m	Jan.	50.4	51.0	51.8	51.0
Agricultural Employment (cb)	Jan.	8.7	8.9	8.7	9.0
Employees, Manufacturing (lb)	Jan.	15.8	16.1	15.7	13.6
Employees, Government (lb)	Jan.	5.8	6.0	5.7	4.5
UNEMPLOYMENT (cb) m	Jan.	1.1	0.9	1.6	3.9
FACTORY EMPLOYMENT (lb4)	Jan.	166	169	165	141
Durable Goods	Jan.	229	233	218	168
Non-Durable Goods	Jan.	117	119	123	120
FACTORY PAYROLLS (lb4)	Dec.	328	336	288	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Nov.	45.5	45.4	44.0	40.3
Hourly Wage (cents)	Nov.	99.5	98.9	90.5	78.1
Weekly wage ($1)	Nov.	45.27	44.90	39.78	32.79
PRICES—Wholesale (lb2)	Feb. 12	103.1	103.1	102.1	92.2
Retail (cdlb)	Dec.	135.6	135.1	129.8	116.1
COST OF LIVING (lb3)	Jan.	124.2	124.4	120.7	110.2
Food	Jan.	136.1	177.1	133.0	113.1
Clothing	Jan.	134.5	134.6	126.0	113.8
Rent	Jan.	108.1	108.1	108.0	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Dec.	6.72	5.62	6.14	4.72
Durable Goods	Dec.	0.90	0.78	0.89	1.14
Non-Durable Goods	Dec.	5.82	4.84	5.25	3.58
Chain Store Sales (ca)	Jan.	188	170	177	151
Dept. Store Sales (rb) (1)	Dec.	130	158	125	116
Dept. Store Stocks (rb2)	Dec.	98	98	101	95
MANUFACTURERS'					
New Orders (cd2)—Total	Dec.	271	272	255	212
Durable Goods	Dec.	400	392	361	265
Non-Durable Goods	Dec.	188	196	187	178
Shipments (cd3)—Total	Dec.	272	270	240	183
Durable Goods	Dec.	371	373	320	220
Non-Durable Goods	Dec.	196	189	178	155
BUSINESS INVENTORIES—$b					
End of Month (cd)—Total	Dec.	26.8	28.1	28.0	26.7
Manufacturers'	Dec.	17.7	17.8	17.6	15.2
Wholesalers'	Dec.	4.0	4.1	4.0	4.6
Retailers'	Dec.	5.1	6.2	6.4	6.9

PRESENT POSITION AND OUTLOOK

(Continued from page 575)

Since plans are already being laid for a fifth and even a sixth loan drive, it is beginning to dawn upon the financial world that the Treasury is pursuing its own unadvertised method of **controlling inflation.** Through a succession of war loan drives which raise more money than needed to meet the Government's current expenses, the Treasury piles up a continually growing working balance at the expense of individual deposits, thereby **mopping up excess purchasing power.**

* * *

A glance at our accompanying chart of "Money and Bank Credit" will reveal the beauty of this plan. Within the approximately five-months' period from Oct. 20 to Feb. 16, the Federal Gross Debt has increased $16 billion; while reporting member banks report increases of only $0.40 billion in Government bond holdings, $0.1 billion in total bank credit and $0.1 billion in demand deposits. Considerations such as these may have prompted Congress to pass grudgingly the **tax bill** to yield only $2.3 billion.

* * *

If inflation can be averted by checking expansion in bank deposits, then the Treasury can turn the trick by continuing to build up its working balance, even in the absence of further tax boosts. In any event a large working balance would come in handy later on to help meet probable post-war demands for **redemption of war bonds.** Incidentally, Chairman Eccles of the Federal Reserve Board predicts that the Federal **post-war budget** will be well above $20 billion.

* * *

But the opinion has often been expressed in this column that **inflation** is not caused, but merely permitted, by a plethora of currency. Prices are raised by labor, producers and distributors. Consumers grudgingly pay the higher prices demanded up to the limit of their resources. Efforts to push up prices beyond the public's capacity to pay result in the so-called "buyers' strike," followed by deflation. Rigid **enforcement of ceilings** on wages, goods and services is the only effective way to prevent rising prices in times when purchasing power exceeds production. Bigger taxes and bond sales will not, of themselves, hold prices down.

* * *

Even if the Treasury succeeds in heading off further expansion in bank deposits, enough purchasing power—actual in the form of currency, and potential in the form of war bond holdings—has already been stored up to permit a disastrous rise in prices unless ceilings are maintained after the war until reconversion is completed and dealers' shelves are well stocked with

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—1—pc	Feb. 12	133.8	134.1	124.0	118.2
(M. W. S.)—1—np	Feb. 12	162.4	162.7	151.0	139.5
INDUSTRIAL PRODUCTION (rb3)	Dec.	245	247	223	174
Durable Goods, Mfr.	Dec.	374	377	328	215
Non-Durable Goods, Mfr.	Dec.	175	179	169	141
CARLOADINGS—t—Total	Feb. 12	795	806	765	833
Manufacturers & Miscellaneous	Dec. 12	366	374	364	379
Mdse., L. C. L.	Feb. 12	99	102	94	156
Coal	Feb. 12	187	183	178	150
Grain	Feb. 12	54	55	48	43
ELEC. POWER Output (K.w.H.)m	Feb. 12	4,533	4.524	3,940	3,369
SOFT COAL, Prod. (st) m	Feb. 12	12.95	12.85	12.20	10.8
Cumulative from Jan. 1	Feb. 12	77.51	64.56	71.21	466
Stocks, End Mo.	Dec.	56.7	60.1	85.9	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Feb. 12	4.40	4.40	3.87	4.11
Gasoline Stocks	Feb. 12	82.32	81.78	91.76	87.84
Fuel Oil Stocks	Feb. 12	52.45	52.73	70.82	94.13
Heating Oil Stocks	Feb. 12	34.85	36.02	36.89	54.85
LUMBER, Prod. (bd. ft.) m	Feb. 12	559	562	460	632
Stocks, End Mo. (bd. ft.) b	Dec.	3.6	3.7	4.8	12.6
STEEL INGOT PROD. (st.) m	Jan.	7.60	7.27	7.42	6.96
Cumulative from Jan. 1	Jan.	7.60	88.87	7.42	75.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Feb. 18	37.0	23.2	98.9	93.5
Cumulative from Jan. 1	Feb. 18	252	215	478	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Feb. 2	155	185	149	165
No. Am. Newsprint Prod. (st)t	Jan.	324	335	317	411
Do., Stocks (mpt) End Mo. (st)t	Jan.	621	604	800	745
Wood Pulp Stocks, End Mo. (st)t	Dec.	64	72	144	98
Footwear Production (pairs)m	Dec.	38.2	36.4	38.5	34.8
Hosiery Production (pairs)m	Dec.	151	148	146	150

PRESENT POSITION AND OUTLOOK

consumer goods. To appreciate this it may suffice to recall that, in the three-year period since 1940, **farm income** from marketings and Government benefit payments has risen $10.5 billion (200%) and **payrolls** $51 billion (also 200%), while **living costs** have advanced only 23%.

* * *

During this same three-years period, according to Commerce Department estimates, there has been an increase of $80 billion in the annual value of goods and services produced for war purposes, with a rise of only 10% in **employment.** Yet in spite of this miraculous expansion in war activities, there has been an increase of 50% in the value of consumer goods and services produced. We have had both guns and butter.

* * *

After the shooting stops, what use are we going to make of this newly demonstrated superability to produce? Go on producing until everyone is well supplied with mundane comforts and conveniences? Or fritter it away with made work, short hours, slowing down on the job, boycotting of labor-saving devices, and maintenance of a huge military establishment?

* * *

Last year's **retail store sales** totaled about $63.3 billion, topping 1942 by 10% in value and 1.4% in volume. **Department store sales** this year to Feb. 12 were about level with last year in value.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb. Census Bureau. cd—Commerce Dep't. cd2—Commerce Dept., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. Index (1935-9—100) using Labor Bureau & other data. en—Engineering News-Record. l—Seasonally adjusted Index. 1823-5—100. lb.—Labor Bureau. ib2—Labor Bureau. 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100 m. Millions. mpt—At Mills, Publishers & in Transit. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, adjusted index, end of Mo., 1923-5—100. rb3—Federal Reserve Board adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

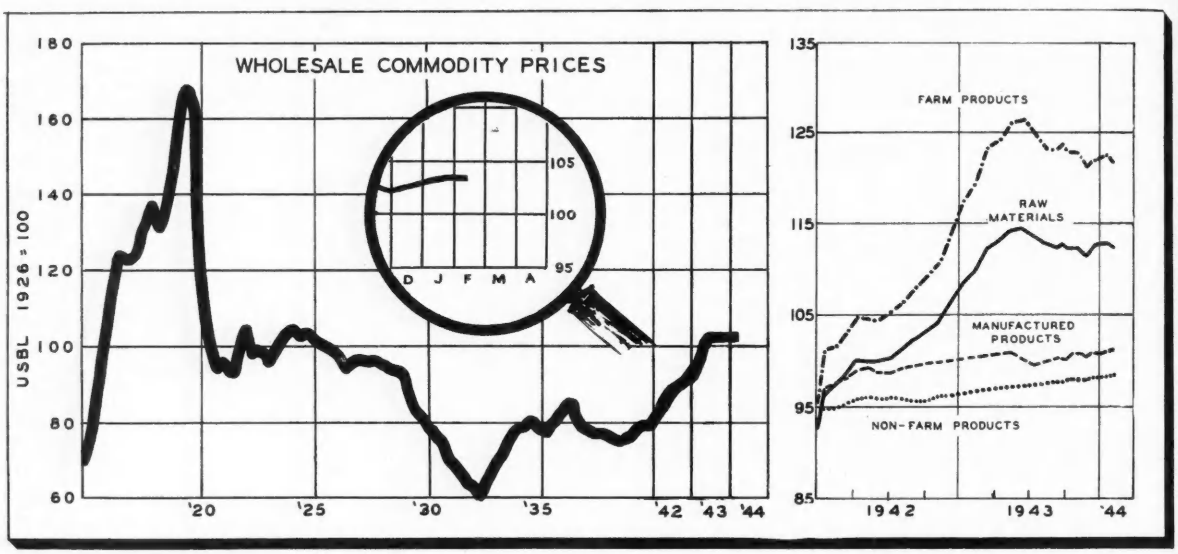
No. of Issues (1925 Close—100)	1943-4 Indexes High	Low	Feb.19	Feb. 26
283 COMBINED AVERAGE	89.9	54.5	82.5	83.8
4 Agricultural Implements	156.5	105.2	149.1	151.3
9 Aircraft (1927 Cl.—100)	179.2	112.7	129.2	134.0
5 Air Lines (1934 Cl.—100)	560.3	363.1	444.2	461.3
5 Amusement	78.4	40.2	68.3	70.1
12 Automobile Accessories	142.1	83.0	124.2	127.9
12 Automobiles	21.0	9.7	18.1	18.4
3 Baking (1926 Cl.—100)	15.0	8.5	12.9	13.0
3 Business Machines	197.1	129.4	179.4	179.3
2 Bus Lines (1926 Cl.—100)	115.3	54.9	114.3	115.0
5 Chemicals	194.7	153.5	178.1	179.2
4 Communication	60.6	41.9	59.0	59.1
12 Construction	38.0	23.3	33.7	34.3
6 Containers	240.4	177.1	224.5	229.2
8 Copper & Brass	82.5	61.8	64.4	65.8
2 Dairy Products	40.6	29.7	40.2	40.6G
6 Department Stores	32.2	15.4	28.3	29.4
5 Drugs & Toilet Articles	89.6	50.9	86.5	88.2
2 Finance Companies	237.3	152.6	217.2	218.7
7 Food Brands	131.9	85.5	126.0	125.8
2 Food Stores	48.1	37.7	47.6	48.1D
4 Furniture	63.5	35.0	57.6	59.4
3 Gold Mining	1010.4	610.3	920.9	926.4

(Nov. 14, 1936, Cl.—100)	High	Low	Feb.19	Feb. 26
100 HIGH PRICED STOCKS	68.01	52.87	63.72	64.43
100 LOW PRICED STOCKS	88.00	43.61	80.48	82.16
6 Investment Trusts	39.1	22.7	34.9	35.6
3 Liquor (1927 Cl.—100)	321.3	197.1	291.4	295.0
8 Machinery	111.6	82.6	106.7	107.1
2 Mail Order	91.8	61.8	82.9	84.4
3 Meat Packing	62.0	34.9	62.0	61.5
11 Metals, non-Ferrous	155.7	106.8	123.1	122.8
3 Paper	13.7	9.0	13.2	13.4
22 Petroleum	141.4	86.9	123.1	123.5
19 Public Utilities	58.1	23.2	50.7	52.5
4 Radio (1927 Cl.—100)	26.1	12.1	22.7	22.8
7 Railroad Equipment	57.4	32.1	53.8	54.6
18 Railroads	18.6	9.8	17.8	18.2
2 Shipbuilding	106.1	61.2	79.3	78.4
3 Soft Drinks	337.1	197.8	308.7	306.2
13 Steel & Iron	79.3	57.6	69.9	70.3
3 Sugar	47.2	32.2	42.2	44.6
2 Sulphur	196.2	159.8	168.5	169.3
3 Textiles	56.7	33.7	51.7	51.5
3 Tires & Rubber	28.1	16.5	26.1	27.0
4 Tobacco	67.7	52.2	63.2	62.7
2 Variety Stores	233.8	182.4	223.9	228.5
21 Unclassified (1942 Cl.—100)	190.0	100.0	159.2	161.5

New HIGHS since: D—1940; G—1937.

Trend of Commodities

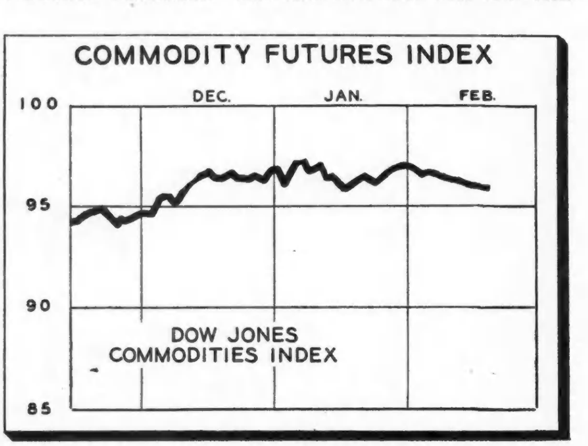
The Labor Bureau's index of spot prices for seven leading agricultural products rose fractionally to a new wartime high during the past fortnight; though grains softened following reports that a large eastern distilling plant that has been using 100,000 bushels daily had been ordered to convert its facilities for use of molasses as a raw material. American rice processors, handling a record crop of 70 million bushels, have been forced into various subterfuges to escape the squeeze between high material cost and low ceiling on their finished product. The OPA is said to admit the situation; but doesn't want to raise the ceiling on polished rice and says it couldn't clamp a ceiling on rough rice without a clash with the WFA. One loophole is to function as miller, distributor and wholesaler, taking the mark-ups all along the line. Another is to sell to Cuba. Still another is to resell the rough rice bought from the farmer, buy it back, mill it and then sell it on a custom (higher priced) basis. All of these "outs" are legal under OPA regulations. The Government expects to take half the commercial vegetable pack this year and 70% of the canned fruit; yet canners are asking for a four-months holiday on rationing to clear up surpluses. Commercial canners produced only 185 million cases for civilians last year; but home canning added 170 million.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

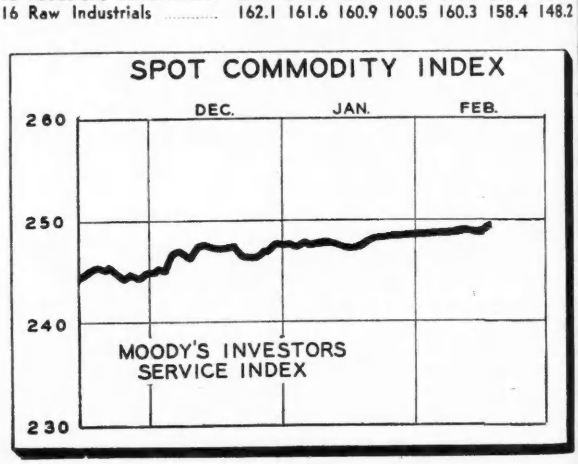
	Date Feb. 19	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	180.1	179.7	179.1	177.9	177.1	175.3	156.9
11 Import Commodities	168.0	168.2	167.6	167.6	167.2	165.8	157.5
17 Domestic Commodities	188.3	187.5	187.0	184.8	183.8	181.7	156.6

	Date Feb. 19	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	221.3	221.0	218.6	213.4	212.0	204.0	163.9
12 Foodstuffs	206.9	206.7	206.4	203.8	201.9	200.4	169.2
16 Raw Industrials	162.1	161.6	160.9	160.5	160.3	158.4	148.2



Average 1924-26 equal 100

	1944	1943	1942	1941	1939	1938	1937
High	97.09	96.55	88.88	84.60	64.67	54.95	82.44
Low	95.91	88.45	83.61	55.45	46.50	45.03	52.03



15 Commodities, December 31, 1931, equal 100

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	1944	1943	1942	1941	1939	1938	1937
High	249.5	249.8	239.0	219.0	172.3	152.9	228.1
Low	247.0	240.3	220.0	171.6	138.4	130.1	144.6

Wartime Trends in Consumer Spending

(*Continued from page* 557)
ecreational purposes due to the raft and long working hours in war lants. To many, this small absoute increase may come as a surprise ut it is nevertheless based on fact. ost-war trends of recreational spendng are of course entirely dependent n income trends.

Taking the entire "services" group, igorous post-war rebounds of conumer expenditures are thus indicatd for home maintenance and peronal services; both were severely rericted by war conditions. Expenitures for housing depend mainly n post-war rent levels which after bandonment of rent control will be overned by the amount of available ousing, taxes and the cost of living s a whole. Expenditures for houseold utilities, transportation, medial care and recreation are largely ound up with income trends after he war.

In analyzing the entire field of conumer spending, it should of course ot be forgotten that expenditures re not always the equivalent of conumption. This applies especially to urable goods but over a shorter erm also to certain non-durables uch as clothing and perhaps shoes, nd where hoarding occurred, also o certain foods, liquor, etc. On the hole, however, this is a minor facor in the non-durable goods field.

Despite maintenance of consumer utput at amazingly high levels, the ap between income and that portion f the national product available for rivate use has been constantly idening. It gave rise to the much ublicized concept of the "inflaionary gap," representing savings fter consumer expenditures and axes. Such net savings last year ere estimated to amount to $33.6 illions, compared with $26.9 billions in 1942 and only $6 billions in 939. They never exceeded $10 bilions in any pre-war year. The total ncrement since 1939 is estimated ell over $80 billions. What makes his enormous rise in spendable assets f the consuming public important is ts potential effect on future spending nd saving decisions. Thus what is appening during the war may in arge measure determine the characer of our post-war economy. Much as been written about the imporance of technological developments ut probably a more profound, if ess spectacular influence will be exrted by the future use of these accumulated savings. Since they are readily available for spending, their's is a truly dynamic character that will make them a force which can be exerted for good or evil. They can easily lead to substantial post-war inflation if they are used to support a headlong buying rush immediately after the war ends. On the other hand, if used wisely, they can act as a catalyst that will do much to stimulate the process whereby production makes markets in the post-war period. Whether we can avoid an inflation but nevertheless retain the advantages of these holdings will depend largely on the public's understanding of their character and the significance they have for post-war markets.

Essentially, any estimation of the impact of these savings on post-war business requires consideration not only of their form and ownership but also of the motives determining their accumulation and how they are likely to affect the expenditure decisions of consumers after the war. Most probably, they will tend to make the average consumer willing to spend more and save less out of his post-war income. In many cases, savings have been accumulated for a definite purpose, apart from growing reluctance to spend now, during war-time, on available second choices at prices which appear unreasonable. This reluctance is plainly visible; were it absent, the pressure against current price levels, regardless of controls, would be far more formidable. Another and perhaps most important motivation of savings is that of laying something aside against "a rainy day." Just what percentage of savings falls in this category is of course impossible to say; doubtless it is very considerable. It also represents that portion that will not be spent recklessly.

As to disposition of that portion of savings accumulated for definite purposes, a tentative indication is offered by the latest consumer survey undertaken by the Chamber of Commerce of the United States, measuring buying intentions for the period immediately following the war's end. The findings, while they cannot be considered predictions in any sense, are indicative of a strong buying urge especially among the medium and lower income classes. What's more, they have accumulated, or are accumulating, the money for these intended purchases. Of the country's 35,000,000 families, almost two-thirds have in mind one or more purchases they would almost certainly make within six months if the war ended tomorrow. This is an increase of

11% over the findings of a similar earlier survey. Over half of all respondents say they have accumulated savings equal to at least a tenth of their annual income by the end of 1943.

Specifically, 3,675,000 families intend to buy new automobiles; 2,625,000 families plan on purchasing new refrigerators; 2,100,000 intend to buy washing machines; 1,645,000 families want new stoves; 1,400,000 families will need new vacuum cleaners; 2,555,000 families intend to purchase radios; 840,000 families plan on having new sewing machines; 1,505,000 families need new electric irons; 1,085,000 families intend to buy electric mixers.

1,540,000 families intend to build or buy a new home; 39% of the home owners say they will almost certainly improve or repair their properties; an average of about 1,300,000 families plan to buy new furniture.

Surveys of this kind are of course never conclusive. Buying intentions of today, when earnings are high, may quickly be forgotten when economic insecurity rears its head as it well may for a time after the war. However, with reasonable assurance of employment and income, backed by existing large savings, they do throw a rosy light on what *may* lie ahead if serious inflation can be avoided.

What About Corporate Profits in 1944?

(*Continued from page* 546)

soft drinks, and public utilities. Aircraft industry earnings, due to higher volume, may be even larger than in 1943. Building, finance company, machine tools, steel, railroad, mining and merchandising earnings probably will be at least moderately lower than in 1943.

The third chart accompanying this article traces the total quarterly earnings of 200 leading industrial corporations. Contrary to the experience of many smaller concerns and of the railroads and utilities—as well as contrary also to the showing of aggregate profits for all corporations —this group of larger companies had its maximum war-time profits in 1941. The quarterly figure reached $383 millions in the first period of 1941 and was close to that high mark for the final quarter of 1940 and the first nine months of 1941. Thereafter, earnings fell sharply and the big rebound in the fourth quarter of 1942 was largely due to correction of previous quarterly over-estimates of tax liability, prior to completion of the final legislation. Despite the rise in production, fourth quarter 1943 profits, totalling $336 millions, were nearly 13 per cent under the best showing of 1941.

Divergent Trends for Merchandising Shares

(*Continued from page* 561)

economies by this group of stores.

Because of severely unbalanced inventories and probably less abundant new supplies, *mail order concerns* in 1944 are likely to report declining sales and earnings. Scarcity of hard goods will be severely felt despite greater stress of soft lines since the war. Opportunity for further operating economies are virtually exhausted and the cost of returning large numbers of orders because of inability to fill them is particularly onerous. The prospective recessive earnings tendency will however be largely at the expense of taxes so that nevertheless a satisfactory level of profits is indicated. Since income of the farmer, an important customer of mail order houses, would be less affected by peace prospects, such concerns are relatively better situated than other retail outlets as far as longer range prospects are concerned.

Sales of *Variety Chains* rose about 5% in 1943 and demand in 1944 should continue excellent. Supply will be the principal problem; being largely a manpower question, it will be mainly governed by availability of labor in the supplying industries. While WPB is attempting to encourage more production of lower priced textile lines, important to these stores, there is little hope of real success over the immediate future in view of the narrow margins and frequently unsatisfactory ceilings prevailing in this field. Moreover, experience with substitute merchandise has not been satisfactory and remaining stocks are not being replaced to avoid inventory losses. Hard goods are virtually exhausted and replacements are few. Operating expenses are tending higher, notably wages, and last year more than offset expanding gross profits. This trend may continue this year but any decline in pre-tax earnings should be largely offset by tax savings. In the main, earnings should hold up well despite recessive volume trends and rising costs. Additionally, inventories are closely tailored to anticipated sales requirements; as a result no material inventory losses are in pro[spect] when better sales values becom[e] available with easing war restriction[s].

Dollar sales of *grocery chains* d[e]clined some 16% last year, a sizabl[e] drop in physical volume since reta[il] prices averaged over 12% highe[r] than in 1942. In contrast, a 20% volume gain was reported by ind[e]pendent grocery stores. This dive[r]gence is primarily due to increase[d] patronage of the independents cause[d] by slackening consumer price co[n]sciousness, common in times of pro[s]perity, and loss of chain store bus[i]ness because of gasoline rationin[g]. These factors will continue to ope[r]ate for the duration, as will the r[e]strictive effects of rationing, shor[t]ages, price controls and rising cost[s]. But with the over-all food supply e[x]pected about to equal last year's volume and operating profits shoul[d] remain fairly constant at last year['s] lower levels though net results ma[y] be influenced by changes in tax rate[s]. Route operators, such as Jewel Te[a] are additionally handicapped by d[e]livery difficulties; any change in th[e] situation could find marked refle[c]tion in earnings.

Pending decisive changes in th[e] war situation and as a corollary, i[n] the supply outlook and general i[n]come trend, stockmarket potential[i]ties of retail trade equities shou[ld] change little over the more imm[e]diate future. Food controls and ge[n]eral war-time conditions for the tim[e] being detract from the appeal of gr[o]cery chain shares, normally enjoyin[g] considerable stability of incom[e] while variety, drug and restaura[nt] chain equities, though chiefly spec[u]lative, have more current attractio[n]. Mail order shares stand out for s[u]perior future potentials from larg[e] pent-up demand and sustained hig[h] agricultural purchasing power. Th[e] former also lends appeal to well-e[n]trenched department and specialt[y] store equities, quite apart from the[ir] satisfactory near-term outlook.

The longer term social tren[d] toward greater distribution of th[e] national income among workin[g] classes is generally beneficial to reta[il] trade since these groups immediatel[y] spend a large share of their earning[s]. Similarly, higher farm income [is] beneficial inasmuch as it provides [a] margin above the mere necessiti[es] which becomes available for oth[er] goods. These are important consi[d]erations in judging longer term p[o]tentials.

Lack of reconversion problems is [a] more nearby factor though trans[i]tional problems may arise from po[s]sible extension of price and materia[l] controls beyond the war period pro[per].

but their possible effects are diffi-
lt to evaluate. On the other hand, emobilization of millions of soldiers, however gradual, and probably uick spending of their mustering-ut pay amounting to several billions in the aggregate should afford welcome cushion when employment uncertainties resulting from rtial or full reconversion may ing about a marked, if temporary, terruption of present buying innsity.

Electrical Equipments In Transition

(*Continued from page* 567)

otors for several lines which are excted to be in great demand in the stwar period, including motors for ectric refrigerators, washing maines, vacuum cleaners and electric ns. Emerson had indifferent earngs before 1941, but for the fiscal ar ending September 30, showed 83 nts a share in 1941, $1.57 in 1942 d $2.01 in 1943. Dividends of 35 nts a share each were paid in 1942 d 1943, with possibilities of an inease this year if earnings hold up. here are small bond and preferred ock issues ahead of the 388,295 ares of $4 par value common stock.

McGraw Electric is another comny which can count on a very large cumulation of public demand for leading products when they can made again for civilian use. It is e maker of the well known toaster Toastmaster," with its mate "Wafmaster." The company is also enged in peace times in making fuses, mps and a number of other items. ar work has not proved as profitble as was the pre-war business. arnings in the 1936-9 period were proved on in 1940 and reached .07 a share that year, falling to .92 in 1941 and to $2.11 in 1942, ut showing some new strength late 1943. The 1944 outlook is more vorable, but the postwar period ould show a return to earnings fficient to make it possible to reore the former $2 dividend rate. cGraw has no bonds or preferred ock and only 472,000 shares of $1 r common.

Electric Storage Battery has been a nsistent earner for a long period years. The demand for its prodcts for war use, added to by some ecial items being made for the med forces, increased its gross inome to a record high for the past teen years in 1942 and 1943. Net come also moved up during the st three years, with $3.93 reported r 1941 the top figure in twelve years. Higher taxes cut down the income in the next two years. The company has followed a liberal dividend policy for many years, paying $2 a share or more annually. The 907,810 shares of no par common stock constitute the only outstanding security. When the war is over, there are bright possibilities for business in the expected boom in motor car sales. The company is the largest maker of storage batteries in the world and numbers among its customers Chrysler, Studebaker and Packard. In addition to this postwar business, it is believed that a very large replacement of old batteries, in the cars in use now, will take place. There has been a moderate amount of Exide and Willard batteries, made by this company, available for replacements during the war, but so many car owners are using their cars on a very small scale that they have not tried to get new batteries now, but can be expected to when they can do more motoring after hostilities cease.

Apex Electrical Manufacturing Co. makes a number of home appliances, of which the best known are its electrical washing machine and vacuum cleaner. Unlike some others in this field, it also makes its own motors. The company has its own distributing facilities and also markets its products through some large retailing stores. Apex is sometimes thought of as being especially hard hit by war conditions, as earnings in 1941 were $6.11 a share and only $1.84 in 1942. It so happens, however, that $5.88 a share of the 1941 income was a recovery in a patent suit. The earnings record from 1930 to 1940 was mixed, with some years in which there were earnings as high as $4.79 a share and others with deficits. Average earnings, excluding the patent suit recovery, were not far from $2 a share during the past ten years. The postwar demand for washing machines and vacuum cleaners is expected to be active for several years. Apex has no bonds and only a small issue of preferred stock ahead of the 85,000 shares of no par value common.

Weston Electric Instrument Corp. is one of the leading makers of recording devices and measuring instruments used in the telephone, public utility, motor car and several other industries. A number of instruments and gauges have been made for the armed forces during the war, most particularly for the aviation industry. Its total of different products is above 600. Earnings before 1939 were only fair, but in the past five years, they have averaged near to $5 a share annually. Dividends since 1940 have been $2 a share each year. Although Weston has some bank loans, there is no funded debt and no preferred stock ahead of the 160,583 shares of common stock, par $12.50.

Black & Decker Manufacturing Co. before the war was engaged mostly in supplying the motor car and the building trades with its portable electric tools. These two consumers of its products have a very bright postwar outlook, and this should be reflected in good business for this company. It showed a sharp decline in earnings in the early 1930s, but at that time, both building and motor car production were at a low level. From 1935 on, excepting 1938, Black & Decker showed good income, with $2.75 a share or more in many years, and $3.78 in 1941. For the fiscal year to September 30, 1943, earnings were $3.22 a share. With good prospects for postwar business and earnings, some increase in the $1.60 dividend rate is possible. The only outstanding security of the company is the common stock of 389,263 shares, no par value.

Master Electric Co. is principally known as the maker of large motors and generators, but it also had some business in small items such as electric fans, kitchen mixers and hair dryers. Its pre-war earnings record was good, and income has increased further during the past two years.

The postwar outlook is favorable, as this company supplies motors for about 75 different industrial uses. During 1943, the company issued $3,000,000 debenture bonds. It has no other funded debt, nor preferred stock. The common consists of 249,932 shares of $1 par value.

Cutler-Hammer, Inc., makes a large number of electrical devices for control, metering and regulating operations in a number of industries. Among the customers are the refrigeration, motor car, building, heating and steel industries. From them can be expected a large postwar demand for many of the products. The armed forces are now supplying most of the company's orders and profits have been large in the past two years. From 1936 through 1943, the company averaged about $1.75 a share annual net income. The company has no funded debt or preferred stock. The common consists of 659,998 shares of no par value. Dividends were $1.25 each in the past two years.

New Outlook for Rail Equipments

(Continued from page 565)

Builders of passenger cars would probably not anticipate any good volume of postwar business except for the fact that no new passenger equipment has been authorized during 1942-3 by WPB (except a few cars for military purposes). With a record-breaking number of passengers in 1943, much equipment is of course rapidly becoming obsolescent. After the war there will be two conflicting factors affecting the amount of new construction. On the one hand, the railroads have perhaps become increasingly aware that under the conditions which prevailed in the 1930s they lost heavily on their passenger business, due to the heavy investment per passenger in expensive terminals, and the large amount of empty seat mileage necessary to maintain legal or competitive standards of service. On the other hand, installation of "streamlined" trains apparently proved profitable—or at least more profitable than the old line business, where much of the profits went to the Pullman Company. (Some of these profits were illusory because they reflected business drawn from the old-fashioned trains.) On the other hand the railroads will feel the urge to compete with buses, automobiles and air-transport lines by installing better equipment. The present big supply of aluminum and magnesium will help reduce train weights and fuel costs. There can be little doubt but that the trend toward lightweight, stream-lined, air-conditioned diesel trains, interrupted by the war, will be resumed. Hence old-line passenger car builders such as Pullman, American Car & Foundry, and Pressed Steel Car may have to meet competition from newcomers in the field such as Budd Manufacturing. Some of the big munitions makers such as Kaiser may also turn their attention to this field.

The specialty companies such as Westinghouse and New York Air Brake, American Brake Shoe, National Malleable, American Steel Foundries and Poor are expected to enjoy a good level of business volume in the immediate postwar period. Rapid deterioration of equipment under present heavy-duty operations should mean a good demand for parts and supplies, particularly as the railroads' inventories must be replenished. The trend toward larger and more powerful equipment, heavier rails, etc., tends to increase the amount of maintenance work. Moreover, the higher accounting standards now prevailing, with depreciation accounts for way and structures as well as equipment, may tend to increase replacement of obsolete facilities.

The makers of signal and train control apparatus are also expected to enjoy a fair backlog of rail business after the war. The ICC is requiring more elaborate signal systems as a safety measure. Recent events have raised the question as to why the railroads haven't adopted devices like radar to prevent collisions, the "walkie-talkies" for communication between engineers and yard or caboose switchmen, etc. However, a considerable amount of work has been done during the war on centralized traffic control, which throws some doubt on the total volume of signal business which will be available after the war.

The outlook for the car leasing companies—General American Transportation and Union Tank Car—seems somewhat less favorable though these companies are well protected by their conservative capital setup. The new pipelines built during the war have further demonstrated the efficiency of this method of transporting oil and gasoline. There may be an increased activity in building pipelines, which may also be used for transportation of other products such as pulverized coal in water, etc.

Summarizing, the rail equipment industry's near term outlook appears quite favorable, due to the sizeable backlog of demand, the increased purchasing power of railroads, and the partial transition already effected to a peacetime basis. Over the longer range, however, the business cycle will doubtless again prove a determining factor in profits with resulting effects on dividends of the weaker companies.

Projecting Prospects for Office Equipments

(Continued from page 568)

ising. Considerable pent-up demand has been developing, notably for typewriters, and export potentials for some time, are likely to exceed the 20% share of pre-war production. On the other hand, the enormous accumulation of Government-held office equipment calls for a skillful disposal policy to avoid disorganization of the domestic market after the war. Since much of this equipment, however, may be badly worn, it is difficult to say just how great a threat it may constitute to future operations. Even at worst it should afford sizeable revenues from rebuilding and repair work.

In view of generally favorable over-all prospects, office equipment shares are selling relatively high in relation to current earning power. During the nearer term, dividend rates should be easily maintained. Companies depending largely on rentals, such as International Business Machines and Pitney-Bowes Postage Meter Co. stand out for stability of earnings, dividends and stock prices. Operations of other companies are more cyclical, hence their equities more speculative; mostly generous dividends, fluctuating with earnings, make for rather wider than average price changes. The post-war era may witness some deviation from these normal characteristics. International Business Machines, National Cash Register

Remington Rand and Addressograph should profit materially from their export potentials, important before the war. Royal Typewriter and Smith-Corona stand to gain from the large deferred demand for typewriters, notably portables which have become increasingly popular in recent years. Thus peace, and with it return to normal activity, is a definite boon to the industry despite temporary difficulties which may arise from disposal of Government-owned equipment. Reconversion, once staggered, promises to be neither difficult nor costly though in a few instances, much retooling will be required, notably by Royal Typewriter and National Cash Register which had to dismantle much of their facilities when converting to war work.

$150 Per Capita in Currency

(*Continued from page* 558)

isting circumstantial evidence, we have no proof with which to detail the story of skullduggery in the matter of war-time black-market business and tax evasion. On the face of it, it appears that an amount of currency not much less than the *total* in use in the '20's is being used for off-the-record purposes. You can bet that Big Business corporations—often smeared by the politicians—have no part in this. They live in glass houses and keep books subject to responsible audit. You can bet that a scandalous portion of Small Business—for which the politicians customarily shed at least crocodile tears—is now keeping books "in the hat" for black-market or tax-evasion reasons, or both in combination.

Further circumstantial evidence of "off-the-record" transactions can be seen in the large increase in outstanding currency of denominations not customarily used in normal business. As compared with August, 1939, there was outstanding late last year $983,000,000 more in $50 bills; $1,904,000,000 more in $100 bills, $208,000,000 more in $500 bills, and $324,000,000 more in $1,000 bills. The percentage increases in $50s and $100s was over twice as great as in $1 and $5 bills.

As regards total currency circulation, there have been comparable upward trends in England and Canada. Since the expansion is mainly a reflection of increased consumer income and secondarily of "off-the-record" transactions, it would be a distortion of the facts to read undue "inflation" implications into it. Certainly here, as in Canada, inflationary pressures are primarily incident to war-time change in commodity supply-demand relationships rather than to intrinsic change in the integrity of the monetary system.

It seems probable that the upward trend in currency volume will flatten out considerably this year; and perhaps even terminate. Allowing for seasonal factors, employment and payrolls appear very near the peak for the "duration." Food supply and rationing are under better control than previously, which is not helpful to black-marketeers. There will be no further rise in taxes to provide added incentive for evasion.

The Treasury can not be unaware of the use of billions in currency to conceal illegal operations. But there is no simple remedy. Despite vigorous prosecution of as many black-marketeers and tax evaders as can be ferreted out, a regrettably large number of people will "take a chance" as long as the illegal gains look alluring. It was so with bootlegging during Prohibition. It is so today with consumer supply generally tight, the national income about 75 per cent greater than in 1929 and taxes at a record high.

The Future of Canada

(*Continued from page* 549)

from the United States. In such case, in order to survive, Canada may be forced either into some agreement with the British Empire, much like the Ottawa Agreement was, or she may seek closer economic ties with us.

In making this decision, much is likely to depend on what role the manufacturing industries, on the one hand, and on the other hand, the primary industries, mining and agriculture, play in the Canadian economy. If, for example, some of the wartime interdependence between Canadian and the United States economy is retained and Canada finds that she can sell us the bulk of her raw materials and semi-manufactures, she may adjust her economy closer to ours and scrap some of her wartime built manufacturing industries. Otherwise the chances are that she will grow closer, in an economic sense, to the British Empire.

Either way, there will be but very limited and specialized opportunities for investment of United States capital in Canada. And since the political trend seems "Left of Center," Canada as a "haven" for one's savings is no safer than the U. S., if as much so.

How New Tax Bill Will Affect Investors

(*Continued from page* 573)

from EPT liability. Natural gas companies are exempted from EPT on any output exceeding normal. Commercial air lines are granted a further extension of the tax subsidy on their air-mail contracts. For the duration of the war, percentage depletion allowances are extended to producers of such minerals as vermiculite, potash, feldspar, mica, talc, lepidolite, barite and spodumene. The intent is to spur output of these minerals which are urgently required in connection with the war effort.

While the administration lost its fight for sharply higher taxes, it did win a spirited tussle over the war contracts renegotiation act which was left virtually unchanged in line with administration wishes. Also remaining in the bill after several close votes is the section requiring annual reports from labor unions, farm cooperatives and other non-profit organizations on their fiscal status but their tax-exempt status will not be changed.

On the other hand, a section which sought to prevent corporations from acquiring the assets of defunct corporations for tax evasion purposes was reformulated in less drastic language, bearing down on cases where the intent of tax evasion is patent and modifying its effect where legitimate reasons may be advanced for such acquisitions.

Liquidation of corporations is facilitated by permitting a domestic corporation to distribute assets to shareholders without recognition of a gain to them until they themselves dispose of the assets. The tax bill further contains broadened relief provisions for companies which might suffer from involuntary liquidation of inventories due to war conditions.

All the latter provisions may be highly important to individual companies as implied by their wording, and as such deserve attention where applicable. In view of the technicalities involved, it is beyond the scope of this article to demonstrate their potential effects. Of main interest to the average investor is doubtless the new bill's effect on corporate earnings through raising of the EPT rate to 95% as projected in the samples contained in our list. These calculations, while not considering the effect of reduced EPT credits for companies using the invested capital base,

give a fair indication of the law's impact on corporate earnings. In the great majority of cases, no serious deterioration of income is in prospect. Some companies which conceivably might be affected most because of their high current profits, may escape entirely the additional impost since their tax payments have already reached, in the aggregate, the maximum of 80% stipulated by law. Nearly every aircraft manufacturer falls into this category. On the other hand, the oil and copper industries will not be affected materially by the tax increase, the steel industry only moderately so. Since tax bases vary among individual companies, the samples listed in our table cannot, of course, be considered representative for any given industry.

As I See It

(*Continued from page* 541)

considered a prerequisite for any invasion effort. In other words, the Allies may be willing to trade time for blood. The softening-up process of Axis Europe by means of air raids, steadily increasing in tempo and fury, is well under way. In Mr. Churchill's words, it must be regarded as our chief offensive effort at the present time, the foundation on which invasion plans hinge.

There have, in the past, been many rumors to the effect that an invasion has not yet been definitely decided upon. This seems hardly likely. Rather it may be possible that an invasion effort may not be attempted quite as early as many of us anticipate. The Prime Minister's report may or may not support some such theory. After all, he can hardly be expected to give away military secrets; in view of this, any speculation as to invasion timing would seem futile. There are, of course, skeptics who read into Churchill's report some further British hedging on the invasion question, who cite his alleged earlier reluctance to undertake the costly jump across the Channel and believe that he still favors other means, including perhaps high-pressure diplomacy, to bring the conflict to a decision.

From an international-political standpoint, it is perhaps disappointing that Mr. Churchill could say no more than that no political ground has been lost since the conferences of Moscow and Teheran. The implication that no progress has been made either is confirmed by his hinting at the delicacy of political dealings with our Eastern ally. This is further borne out by Mr. Eden's statement before the House of Commons that "he does not remember a period when foreign policy was so difficult to conduct as it is now." Clearly, Russia's decision to "deal roughly" with Poland has created an unmistakable sense of apprehension in conservative quarters. Whatever the real attitude of the British Government, it has rendered more difficult its position at home and any possible commitments can be expected to be questioned most sharply. In view of Britain's position and interests on the Continent, this is quite natural but the realities of war may well create an unpleasant dilemma that any Government may find difficult to solve.

Elsewhere in the political sphere, it might be mentioned that Mr. Churchill's interpretation of the meaning of "unconditional surrender" is, to my recollection, the first to be advanced by any responsible Allied leader. At that, it adds little to the already existing concept of the term as formed from the handling of the Italian surrender. To the Germans, it can be of little satisfaction if ever they expected a more lenient interpretation. Obviously, terms will be made after, not before surrender.

On the whole, Mr. Churchill's report must be regarded as a realistic survey of the war situation, and the trend in England to consider their own interests paramount. It does not minimize, but rather explains, the difficulties we presently experience, the enormousness of the task of enforcing a final decision on the battle field, the political differences still existing among the Allies and the difficulties, but not the impossibility of reconciling them, especially as regards the smaller nations. The very realism employed, whatever the immediate motive, can be of little comfort to the enemy. But it enables us to look the facts in the face and take them for what they are. Their corollaries on the home front are inescapable. They are, in the main, that our best efforts are still needed to win the war for which no possible time table can be drawn up.

—In the Next Issue—

The Potentials in Oil Shares

***By* Stanley Devlin**

Another Look At—

(*Continued from page* 551)

company has expanded its workin capital and earnings are strong wit $15.64 a preferred share earned i 1943 vs. $13.78 earned in 1942. Re lease of additional wool for civilia use will offset any decline in gov ernment orders.

With a 20 point rise in Nationa Supply 6% Pfd. and the clearin away of all arrears last year we fee that a switch is in order into the $ Pfd. stock of the same company. Divi dends of $3 a share were declared o the arrears on this stock in 1943 an the same payment is likely in 194 Arrears of $7.50 per share remaine at the end of 1943. Earnings in th first 9 months of 1943 were $9.45 pe share of this preferred compare with $3.66 per share in the sam months of 1942. Earnings should b well maintained by war orders. Th outlook for oil equipment volume i good. Contract renegotiation is no a serious threat.

Twin Cities Rapid Transit 7% Pfd. paid $7 in 1942 and in 1943 an at least this amount should be pai in the next twelve months. $1.75 share has been declared payabl March 30 to holders of record Marc 1, 1944. After that payment remain ing arrears will amount to $49 pe share. The company reported $37.1 per share of Pfd. stock earned in th first 3 quarters of 1943 vs. $19.26 i the same period of 1942. Despit higher wages a very good earning rate should be continued by thi Transit Company as long as busines is active and use of gasoline re stricted.

American Light and Tractio should be added as a favorable spec ulation for profit and income. Th $1.20 dividend constitutes a 7% yiel at present quotations. The stock ha a book value of $41.11. Its estima ed liquidating value is well abov its market price of $17, so the fac that it is being liquidated under th Holding Company Act is no detr ment. The outlook for utilities i strong from an earnings and a polit cal viewpoint.

As indicated, this portfolio adjus ment calls for profit taking on a issues recommended a year ago wit the exception of the Interlake Iro and New York Central. I close wit the same warning as a year ago "tha today no issue can be held indefi itely so that any or all of my sugge tions may attain prices where prof taking will be advisable."

Answers to Inquiries

(*Continued from page* 576)

preferred stock as compared with $4.47 in 1942. The price range on the New York Stock Exchange in 1943 was: high 97½, low 72½, last 94. At current market price, the yield is 6.3 per cent.

Latest available consolidated balance sheet, dated January 31st, 1943, shows total current assets of $25,495,986 as compared with total current liabilities of $6,808,897, and net current assets of $18,687,089. Cash, alone, amounted to $7,106,528, exceeding total current liabilities. The company cleared up all of its arrears in 1937 and since then the $6 dividend rate has been paid regularly. While the preferred stock can only be classified as medium grade, the company's financial position is sound and the return on this stock provides a good income yield. While it is subject to market price fluctuations, we think it can safely be included in a business man's portfolio. Preferred stocks as a rule are governed by two factors, namely, the long cycle of long term capital rate and the trend of corporation earnings, the latter usually determined by the level of business activity. The relative effect of the two factors upon medium grade preferred stock varies with the degree of quality. With this company the main factor is earnings, rather than interest rates, and prospect is good.

Outlook for Farm Equipments

(*Continued from page* 563)

equipment should mean a substantial gain in sales for 1944. However, costs are rising and with the recent inroads on the "Little Steel" formula, further wage increases may prove necessary—possibly without compensatory increases in raw material costs (though renegotiation of war contracts may absorb some increased costs). Thus despite the excellent sales outlook, increased expenses and excess profits taxes will probably hold share earnings to around the 1942-3 levels. However, if government restrictions are lifted after the war and the industry can concentrate on a backlog of two or three years' accumulated farm business, profits may run substantially higher, particularly with any modification of federal taxes.

Investment Audit of the Paper Industry

(*Continued from page* 575)

potential for new buyers.

Some paper companies are partly or wholly integrated. Hinde & Dauch, a leading producer of shipping boxes, operates six paper mills and 14 box factories but does not own its pulp supply. The latter fact is a disadvantage under present pulp shortages, but an advantage under normal competitive conditions in pulp. Earnings record has been consistently good except under extreme depression conditions; and the company is among the minority whose best war-period profits were under those of best pre-war years. It earned $3.55 in 1937 and $1.29 even in the poor year 1938. In more recent years net has ranged between low of $1.90 in 1939 and high of $2.59 in 1941—with $2.29 in 1942 and $1.80 for first nine months of 1943. Financial position appears comfortable; there is only a small preferred issue ahead of the 360,250 shares of common and current yield of $1.50 indicated dividend rate is 7.1 per cent. At 20 the stock is near the high of its 1943 range but 16 points below 1937 high.

Union Bag & Paper is an integrated maker of paper bags, wrapping paper and linerboard. Back earnings record has shown rather marked fluctuations, without an apparent secular growth. War-time profits—ranging between $1.70 and $1.50 for 1940-1942—have been much above pre-war average which, excepting $1.32 in 1937, was well below $1 a share. With a sizable debt ahead of the 1,257,037 shares of common, the stock at 9⅝ is regarded by the writer as an unattractive speculation. Earnings of .53 cents for the nine months to Sept. 30 suggest probable substantial shrinkage in full-year net from 1942 figure of $1.50.

Most other companies in the field are classed as mainly, or wholly, primary producers of paper, rather than intermediate fabricators of paper products. By far the largest is International Paper, producing virtually every type of paper and pulp. Newsprint from its Canadian properties is still very important but in recent years has been passed in tonnage by output of International's Southern Kraft subsidiary. Financial position has been improved. Working capital is ample and preferred arrears were cleared in 1940-1941. However, there is $56,000,000 of debt and 925,000 shares of $5 preferred ahead of the 1,823,000 shares of common. The fact that the preferred stock is now priced on a 7.3 per cent yield basis attests to the speculative position of the common. Yet, under favorable conditions, large earnings can be shown, as for instance $6.07 and $6.37 on the common in 1940 and 1941, respectively. There was sharp drop to $1.75 in 1942 and $1.73 was shown for nine months to last Sept. 30. Pre-war earnings record was unimpressive, with no dividends. Whether and when dividends will be inaugurated is conjectural. The stock is the most active of the paper group. In fact, marketwise, it is to paper what Big Steel is to the steel stocks.

Champion Paper & Fibre has a good position in the book paper division, also makes cardboard and other stock for containers. Pre-war earnings were not among the best for stability; and peak war-time profits—$3.36 and $4.71 per share, respectively, in the fiscal years 1941 and 1942 — must be considered exceptional. Interim net of 75 cents for 12 weeks to last Nov. 7 was equivalent to annual rate of $3.25. Dividends at the rate of $1 have been paid for the past four years. There is a debt of about $12,000,000 and 89,493 shares of $6 preferred ahead of the 550,500 shares of common. At 27, or near the 1943 high, the writer does not regard the stock as attractive for investment or speculative appreciation potential—though it sold at 63¼ in 1937 on earnings of $1.98 a share and dividend of $1.25. Somebody must have been dreaming.

West Virginia Pulp & Paper is a sound old-line, integrated producer of printing papers and, especially over the past decade, has become an important factor in kraft papers and paperboard. There are many by-products. Current financial position is strong and highly liquid. It is stated that presently outstanding funded debt of about $4,600,000 of per cent bonds will soon be retired out of surplus cash. Position is being further improved by substitution of an issue of 155,830 shares of 4½ per cent cumulative preferred for presently outstanding equal number of shares of 6 per cent cumulative preferred. Pre-war earnings fluctuated rather widely. Although common dividends have been consistently paid for many years, rates often were low. War-time earnings have been much above pre-war average, reaching peak of $3.70 a share in 194 dipping to $2.05 in 1942 and to $1.8 in 1943, all years being fiscal period ended Oct. 31. Dividend of $1. was paid last year. Assuming continuance yield is around 7.3 per cent

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